

REGISTERED, RETURN  
RECEIPT REQUESTED:

May 28, 1945.

Beloil Corporation, Ltd.,  
Lido Petroleum Company and  
Fullerton Oil Company,  
P. O. Box 179,  
Inglewood, California.

Gentlemen:

In re: State Oil and Gas  
Lease No. P.R.C. 145.

In reviewing the file on State Oil and Gas Lease No. P.R.C. 145, we find that the Lease document bears the date of July 3, 1944.

The Lease, however, was awarded to the Beloil Corporation, Ltd., Lido Petroleum Company and the O. C. Field Gasoline Corporation by the Commission at its meeting on May 5, 1944. This award is reflected in item 2 of the minutes of the State Lands Commission meeting held May 5, 1944.

Please take notice, therefore, that the effective date of State Oil and Gas Lease No. P.R.C. 145 is May 5, 1944.

Yours very truly,

J. STUART WATSON,  
Assistant  
Executive Officer.

Form 3811  
Rev. 1-4-40

**RETURN RECEIPT**

Received from the Postmaster the Registered or Insured Article, the original number of which appears on the face of this Card.

1 Beloil Corp Ltd  
(Signature of name of addressee)

P.R.C.  
44 & 145

2 M. E. Fragiel  
(Signature of addressee's agent—Agent should enter addressee's name on line ONE above)

Date of delivery MAY 31 1945, 194

U. S. GOVERNMENT PRINTING OFFICE 16-12421

No. 145, P.R.C.

STATE LANDS COMMISSION  
State of California  
Oil and Gas Lease

THIS INDENTURE OF LEASE, Made and entered into this third  
day of July, 1944, 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 herein-  
after called the "State", and Beloil Corporation, Ltd., a cor-  
poration; Lido Petroleum Company, a corporation, and O. C.  
Field Gasoline Corporation, a corporation.

hereinafter called the "Lessee";

WITNESSETH: That the State in consideration of the rental and roy-  
alty to be paid and the covenants, conditions, agreements and stip-  
ulations 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, and more

LEASE

OIL AND GAS  
LEASE

particularly described as follows:

Combined Description of Parcels A and B

Beginning at a point on the ordinary high water mark of the Pacific Ocean at the most easterly corner of State Oil and Gas Lease No. 52 in the Rincon Oil Field which point bears S.  $89^{\circ} 48' 30''$  W. 4225.20 feet and S.  $38^{\circ} 44'$  E. 1146.10 feet from the corner common to Sections 8, 9, 16 and 17, T. 3 N., R. 24 W., S.B.M. thence S.  $51^{\circ} 16'$  W. 1548.65' to a point, thence N.  $38^{\circ} 44'$  W. 843.83 feet to a point thence N.  $51^{\circ} 16'$  E. 516.22 feet to a point, thence N.  $38^{\circ} 44'$  W. 843.83 feet to a point on the southeasterly boundary of Lease No. 48, thence along said southeasterly boundary of Lease No. 48 S.  $51^{\circ} 16'$  W. 3297.27 feet to the southeasterly corner of said Lease No. 48 thence S. 2300 feet to a point, thence E. 2445.47' to a point thence N.  $51^{\circ} 16'$  E. 3797.05 feet to the ordinary high water mark of the Pacific Ocean, thence meandering along the ordinary high water mark of the Pacific Ocean N.  $35^{\circ} 37'$  W. 303.75 feet, N.  $39^{\circ} 40' 30''$  W. 669.88 feet, thence N.  $33^{\circ} 41' 30''$  W. 666.11 feet to point of beginning.

and containing approximately 326 acres.

The term of this Lease shall continue for a period of twenty (20) years from and after the date hereof, but such term may be thereafter extended upon such terms and conditions and for such period of time as the State deems for its best interests. 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 only from the demised premises.

2. The Lessee agrees to pay to the State annually in advance, as rental the sum of Five and no one-hundredths Dollars, per acre, ( \$5.00 ) Dollars, which rental shall be credited against the royalties, if any, as they accrue for the year for which such rental is paid; to pay to the State in money a royalty in accordance with the formula 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 shall not be less than the highest price at which a major oil company then buying oil of like gravity and quality in substantial quantities at the Rincon Oilfield in Ventura County, California is offering for oil of like gravity and quality at the well, 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. 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 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 centum of the gross market value, at Rincon Oil Field, Ventura County, 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 mutually agreed upon by the parties hereto and which shall be based upon 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, take its wet or dry royalty gas, natural gasoline and any other products in kind. Delivery thereof 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.

3. The State reserves the right to lease or otherwise dispose of the surface of the lands embraced within this Lease.

4. This Lease may not be assigned, transferred or sublet, except with 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 the qualifications provided in Division 6 of the Public Resources Code, Statutes of California.

Should the State consent in writing to the assignment, transfer or sub-letting of this Lease, the Lessee shall continue to assume, during the term of this Lease or any extension thereof, jointly with any assignee, transferee or sub-lessee, responsibility for compliance with all of the terms, covenants, conditions, agreements and provisions of this Lease.

5. This Lease may be surrendered and terminated, or any portion of the demised premises may be surrendered, as to any or all separate and distinct oil zones, 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. The State may refuse to permit the Lessee to quitclaim any portion of the demised premises, if in the opinion of the State, such quitclaiming would not be in the best interests of the State of California.

In the event of partial surrender, as provided, the portion of the area quitclaimed shall be in a compact form and contain ten acres or multiples thereof. Such quitclaim shall expressly grant to the State and its Lessees the necessary or convenient easements or rights-of-way through, under or over the portion not quitclaimed, to prospect for, produce and take oil and gas and other products from such surrendered areas or zones; provided, however, that no easement or right-of-way is expressly granted to the State or its Lessee if such easement or right-of-way shall come within ~~one~~ hundred (100) feet from the perforated portion of any well or wells located in the demised premises and belonging to the Lessee who is quitclaiming. For each ten acres surrendered as to one or more oil zones, the Lessee's obligations hereunder as to the number of wells to be drilled shall be reduced by as

many wells as are required to be drilled hereunder to such oil zone or zones for each ten acres of the demised premises.

6. In the event the Lessee shall fail in the performance or observance of any of the terms, covenants, and stipulations hereof, or of the rules and regulations of the State now promulgated or any reasonable rules or regulations which it may hereafter promulgate and if such default shall continue for a period of thirty (30) 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 and enter upon the demised premises and take possession of the same and all facilities, tools, equipment and supplies thereon, for the purpose of completing and/or operating said wells. Should the Lessee fail or refuse to operate the wells or wells in the manner prescribed by the provisions of this Lease, then the State shall have the right and power to operate or shut down the entire operations of the Lessee upon the demised premises until such conditions have been corrected; the Lessee hereby agrees to pay all expenses incurred by the State incident to such State action. The waiver of or failure of the State to act upon any particular cause of forfeiture shall not prevent the cancellation of this Lease for any other cause or for the same cause occurring at another time.

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, the 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.

8. The Lessee shall use all reasonable precautions to prevent waste of oil or gas developed in the demised premises, or the entrance

of water through wells drilled to the oil-bearing strata and the destruction or injury of the oil 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, including without limitation by reason of the specifications thereof, the Lessee's compliance with Division 5 and 6 of the Public Resources Code, Statutes of California, and such rules and regulations as are, or may be issued pursuant thereto.

10. The Lessee shall commence operations for the drilling of wells into the deised 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 the State may determine to be 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 commercial quantities and shall not unreasonably or unnecessarily suspend continuous operations except with the consent of the State. 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 \$25,000.00 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.

14. The Lessee shall file with the State true and correct copies 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 the originals. 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 products produced hereunder except in accordance with such 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 shall keep true, correct, full and complete records and accounts of the cost of development and the cost of production of oil, gas, natural gasoline and other products derived from the wells drilled by the Lessee into the leased premises. Such records and accounts shall be open and available at all reasonable

times to the inspection and examination of any person authorized by the State.

17. The Lessee does hereby consent 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.

18. The Lessee shall make logs, including electric logs and surveys of the wells drilled by the Lessee into the demised premises in accordance with the provisions of this lease and in accordance with approved current practices of operations of this character in effect at the time it undertakes such operations, and shall promptly file copies of all such logs and surveys, drilling records and well histories, and also all records of well cores and other related information with the State Lands Commission. All data with respect to surveys and electric logs shall be made available at the time taken to any designated employee of the Commission. The Lessee does hereby waive the 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. Any and all information filed by the Lessee with the said Division of Oil and Gas shall be available at all times to the State for the purpose of enforcing compliance with the terms, covenants, and conditions of this agreement and rules and regulations now or hereafter promulgated by the State.

19. 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 or hereafter promulgated by the State, provided, 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, and in the event of a disagreement between the State and the Lessee concerning the quality and/or quantity of the oil, gas, gasoline and/or other products so gauged or measured, the burden of establishing the incorrectness of such gauging and/or measurement shall rest upon the Lessee, and the Lessee is hereby given the right to establish, by proper court proceedings, the correct quality and/or quantity of such oil and/or gas so gauged and/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.

20. 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 and/or gas and to promote, without reservoir impairment, the maximum recovery of oil and gas from each zone or separate underground source of supply of oil and/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.

21. Each well drilled pursuant to the terms of this lease shall

be drilled in accordance with the rules and regulations now or which may hereafter be promulgated by the State, only upon filled lands or shall be slant drilled from an upland or littoral drill site to and into the subsurface of the tide or submerged lands covered by this Lease; and 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 or upon the littoral lands or uplands, and all surface operations shall be conducted therefrom.

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 product 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, 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 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 immediately cease, terminate and end, and 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 immediately cease and terminate and end upon receipt of written notice from the State that the State is so exercising its option.

24. The Lessee may use for such operations of Lessee's wells in the demised premises as are necessary, oil produced from Lessee's wells upon the demised premises. Such oil shall be used for fuel 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 such gas so produced may be used ONLY for such gas-lift operations in Lessee's wells in the demised premises as are necessary or for necessary re-pressuring 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 of compensation therefor, but at no expense to the Lessee, all surplus gas which cannot be marketed by the Lessee at a reasonable price. Such surplus gas as may be taken by the State shall be for the use of the State of California.

25. In the event it should become necessary to dehydrate or clean the oil produced from wells drilled into the demised premises, the Lessee shall be entitled to an allowance of actual cost **not to** exceed  $2\frac{1}{2}$  cents per barrel of net royalty oil so dehydrated or cleaned, or at such other rate per barrel as the parties hereto may mutually

agree.

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. All 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,  
Los Angeles, 12, California,

and

(To the Lessee):

Beloil Corporation, Ltd.,  
P. O. Box 179,  
Inglewood, 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.

29. 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 or against oil, gas and other products produced from the demised premises.

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

*[Signature]*  
Executive Officer.

LESSEE

BELOIL CORPORATION, Ltd.,

By

*[Signature]*  
President

Attest:

*[Signature]*  
Secretary

LIDO PETROLEUM COMPANY

By

*[Signature]*  
President

Attest:

*[Signature]*  
Secretary

O. C. FIELD GASOLINE CORPORATION

By

*[Signature]*  
President

Attest:

*[Signature]*  
Secretary

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 "operations" as used herein is hereby defined to be the actual penetration of the ground with a drilling bit.
3. Any offset 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 determined by the Commission.
4. In the event any well has been or is completed with any part of its producing interval within 500 feet from the exterior boundary of this lease, and if such well is capable of producing oil and/or gas in commercially profitable quantities then the State may notify the Lessee in writing to drill an offset well thereto, and within thirty days from the date of such notice, the Lessee shall commence operations 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 and/or gas.
5. For the purposes of this agreement, the existing and prospective oil and/or gas zones in the offshore portion of the Rincon Oil Field are defined as follows:

Upper Zone. All oil and/or gas-bearing strata above the base of the geological "marker", generally known throughout the Rincon Oil Field as the Miley Shale. Said Upper Zone as herein defined, includes what have sometimes been called the Top Zone and the Intermediate Zone.

Miley Zone. All oil and/or gas-bearing strata between the base of the Miley Shale and a vertical depth of 2000 feet below the base of the Miley Shale.

First Deep Zone. All oil and/or gas bearing strata between the base of the Miley Zone, as defined herein, and a vertical depth of 5800 feet below the base of the Miley Shale. Said First Deep Zone includes the productive oil bearing strata encountered at a depth of approximately 6570 feet in Chanslor-Canfield Midway Oil Company's well Hobson C-9, and at a depth of approximately 6440 feet in Richfield Oil Company's well Hobson No. 1 in the upland portion of the Rincon Field.

Second Deep Zone. All oil and/or gas-bearing strata below the base of the First Deep Zone as defined herein. Said Second Deep Zone includes the oil-bearing strata encountered at a depth of approximately 7270 feet in Richfield Oil Company's well Fee No. 1 and between depths of approximately 7440 feet and 9337 feet in Chanslor-Canfield Midway Oil Company's well Hobson C-9, and between depths of approximately 7550 feet and 10,515 feet in Chanslor-Canfield Midway Oil Company's well Hobson C-3 in the upland portion of the Rincon Field, and also includes all prospective deeper oil sands.

6. Within sixty (60) days from and after the date of this Lease, the Lessee shall commence operations for the drilling of a well to the Miley Zone or, at Lessee's option, to any deeper Zone as defined herein, and shall continue diligently thereafter with the drilling until such well has penetrated the objective zone to a depth sufficient to determine the productive possibilities of such zone, unless by mutual written consent of the parties hereto, it shall be determined that said well should be drilled to a greater or lesser depth. In drilling said well, an electric log of all formations penetrated shall be made, 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 and/or gas zones penetrated by the well. At least one dip-meter record shall be made during the drilling of the first well. Copies of all electric-logs, surveys, paleontological reports, dip-meter records, rock core samples and all other drilling data shall be immediately available to the representatives of the State. In the event that more than one oil and/or gas zone is indicated by the rock cores and/or electric log, and the first of such zones tested demonstrates that such zone will not be productive of oil and/or gas in commercial quantities, then adequate production tests of all other indicated oil and/or gas zones shall be made before said well is abandoned or drilling operations therein are suspended.

7. With thirty (30) days from and after the date of completion of the first well, or the cessation of drilling or testing operations therein, the Lessee shall commence operations for the drilling of the next well, and operations for the drilling of each succeeding well thereafter shall be commenced within thirty (30) days from and after the date of completion or cessation of drilling of the preceding well, so that there shall be drilled to each commercially productive oil and/or gas zone, if it is mechanically practicable to do so by slant drilling, at least one well for the production of oil for each ten acres of the area contained in the demised premises; and at least one well for the production of gas for each 40 acres of the area contained in the demised premises. At least one dip-meter record shall be made during the drilling of each well.

8. If the first well completed by the Lessee does not penetrate to a depth sufficient to test the oil possibilities of the Second Deep Zone, as defined herein, then within six (6) months from the date of this Lease, the Lessee shall commence operations for drilling at least one well to a depth sufficient to adequately test the oil and/or gas possibilities of said Second Deep Zone.

9. In the drilling of the first well to the Second Deep Zone, the Lessee shall make or cause to be made, and immediately thereafter the Lessee shall furnish to the State, paleontological reports on the rock-core samples taken from said well in order to identify the stratigraphic age and sequence of the geological formations penetrated by the well, and to correlate such formations if possible, with the formations penetrated by deep upland wells in the Rincon and/or Padre Canyon and/or Ventura Avenue Oil Fields.

EXHIBIT "B"

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

$$R = \frac{P - 36.67}{2.5 + .016667P} \times \frac{1.21}{1}$$

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) per cent upon such average daily production.

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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.

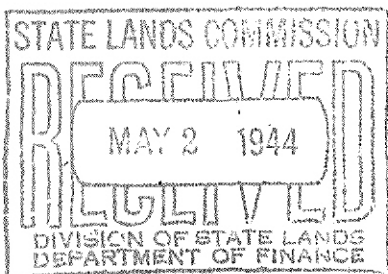
particularly described as follows,

Combined Description of Parcels A and B

Beginning at a point on the ordinary high water mark of the Pacific Ocean at the most easterly corner of State Oil and Gas Lease No. 52 in the Rincon Oil Field which point bears S. 89° 48' 30" W. 4225.20 feet and S. 38° 44' E. 1146.10 feet from the corner common to Sections 8, 9, 16 and 17, T. 3 N., R. 24 W., S.B.M. thence S. 51° 16' W. 1548.65' to a point, thence N. 38° 44' W. 843.83 feet to a point thence N. 51° 16' E. 516.22 feet to a point, thence N. 38° 44' W. 843.83 feet to a point on the southeasterly boundary of Lease No. 48, thence along said southeasterly boundary of Lease No. 48 S. 51° 16' W. 3297.27 feet to the southeasterly corner of said Lease No. 48 thence S. 2300 feet to a point, thence E. 2445.47' to a point thence N. 51° 16' E. 3797.05 feet to the ordinary high water mark of the Pacific Ocean, thence meandering along the ordinary high water mark of the Pacific Ocean N. 35° 37' W. 303.75 feet, N. 39° 40' 30" W. 669.88 feet, thence N. 33° 41' 30" W. 666.11 feet to point of beginning,

and containing approximately 326 acres.





No. \_\_\_\_\_, P.R.C.

STATE LANDS COMMISSION

State of California

Oil and Gas Lease

THIS INDENTURE OF LEASE, Made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 194\_, 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 Beloil Corporation, Ltd., a corporation; Lido Petroleum Company, a corporation, and O. C. Field Gasoline Corporation, a 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, and more

particularly described as follows:

Combined Description of Parcels A and B

Beginning at a point on the ordinary high water mark of the Pacific Ocean at the most easterly corner of State Oil and Gas Lease No. 52 in the Rincon Oil Field which point bears S. 89° 48' 30" W. 4225.20 feet and S. 38° 44' E. 1146.10 feet from the corner common to Sections 8, 9, 16 and 17, T. 3 N., R. 24 W., S.B.M. thence S. 51° 16' W. 1548.65' to a point, thence N. 38° 44' W. 843.83 feet to a point thence N. 51° 16' E. 516.22 feet to a point, thence N. 38° 44' W. 843.83 feet to a point on the southeasterly boundary of Lease No. 48, thence along said southeasterly boundary of Lease No. 48 S. 51° 16' W. 3297.27 feet to the southeasterly corner of said Lease No. 48 thence S. 2300 feet to a point, thence E. 2445.47' to a point thence N. 51° 16' E. 3797.05 feet to the ordinary high water mark of the Pacific Ocean, thence meandering along the ordinary high water mark of the Pacific Ocean N. 35° 37' W. 303.75 feet, N. 39° 40' 30" W. 669.88 feet, thence N. 33° 41' 30" W. 666.11 feet to point of beginning,

and containing approximately 326 acres.

The term of this Lease shall continue for a period of twenty (20) years from and after the date hereof, but such term may be thereafter extended upon such terms and conditions and for such period of time as the State deems for its best interests. 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 only from the demised premises.

2. The Lessee agrees to pay to the State annually in advance, as rental the sum of Five and no one-hundredths (5.00) Dollars, per acre, which rental shall be credited against the royalties, if any, as they accrue for the year for which such rental is paid; to pay to the State in money a royalty in accordance with the formula 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 shall not be less than the highest price at which a major oil company then buying oil of like gravity and quality in substantial quantities at the Rincon Oil Field in Ventura County, California is offering for oil of like gravity and quality at the well, 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. 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 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 centum of the gross market value, at Rincon Oil Field, Ventura County, 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 mutually agreed upon by the parties hereto and which shall be based upon 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, take its wet or dry royalty gas, natural gasoline and any other products in kind. Delivery thereof 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.

3. The State reserves the right to lease or otherwise dispose of the surface of the lands embraced within this Lease.

4. This Lease may not be assigned, transferred or sublet, except with 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 the qualifications provided in Division 6 of the Public Resources Code, Statutes of California.

Should the State consent in writing to the assignment, transfer or sub-letting of this Lease, the Lessee shall continue to assume, during the term of this Lease or any extension thereof, jointly with any assignee, transferee or sub-lessee, responsibility for compliance with all of the terms, covenants, conditions, agreements and provisions of this Lease.

5. This Lease may be surrendered and terminated, or any portion of the demised premises may be surrendered, as to any or all separate and distinct oil zones, 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. The State may refuse to permit the Lessee to quitclaim any portion of the demised premises, if in the opinion of the State, such quitclaiming would not be in the best interests of the State of California.

In the event of partial surrender, as provided, the portion of the area quitclaimed shall be in a compact form and contain ten acres or multiples thereof. Such quitclaim shall expressly grant to the State and its Lessees the necessary or convenient easements or rights-of-way through, under or over the portion not quitclaimed, to prospect for, produce and take oil and gas and other products from such surrendered areas or zones; provided, however, that no easement or right-of-way is expressly granted to the State or its Lessee if such easement or right-of-way shall come within ~~one~~ hundred (100) feet from the perforated portion of any well or wells located in the demised premises and belonging to the Lessee who is quitclaiming. For each ten acres surrendered as to one or more oil zones, the Lessee's obligations hereunder as to the number of wells to be drilled shall be reduced by as

many wells as are required to be drilled hereunder to such oil zone or zones for each ten acres of the demised premises.

6. In the event the Lessee shall fail in the performance or observance of any of the terms, covenants, and stipulations hereof, or of the rules and regulations of the State now promulgated or any reasonable rules or regulations which it may hereafter promulgate and if such default shall continue for a period of thirty (30) 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 and enter upon the demised premises and take possession of the same and all facilities, tools, equipment and supplies thereon, for the purpose of completing and/or operating said wells. Should ~~the~~ Lessee fail or refuse to operate ~~the wells or wells~~ in the manner prescribed by the provisions of ~~this~~ Lease, then the State shall have the right and power to operate ~~or shut down~~ the entire operations of the Lessee upon the demised ~~premises~~ until such conditions have been corrected; the Lessee hereby ~~agrees~~ to pay all expenses incurred by the State incident to such ~~State action~~. The waiver of or failure of the State to act upon any particular cause of forfeiture shall not prevent the cancellation of this Lease for any other cause or for the same cause occurring at another time.

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, the 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.

8. The Lessee shall use all reasonable precautions to prevent waste of oil or gas developed in the demised premises, or the entrance

of water through wells drilled to the oil-bearing strata and the destruction or injury of the oil 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, including without limitation by reason of the specifications thereof, the Lessee's compliance with Division 5 and 6 of the Public Resources Code, Statutes of California, and such rules and regulations as are, or may be 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 the State may determine to be 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 commercial quantities and shall not unreasonably or unnecessarily suspend continuous operations except with the consent of the State. 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 \$25,000.00 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.

14. The Lessee shall file with the State true and correct copies 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 the originals. 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 products produced hereunder except in accordance with such 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 shall keep true, correct, full and complete records and accounts of the cost of development and the cost of production of oil, gas, natural gasoline and other products derived from the wells drilled by the Lessee into the devised premises. Such records and accounts shall be open and available at all reasonable



times to the inspection and examination of any person authorized by the State.

17. The Lessee does hereby consent 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.

18. The Lessee shall make logs, including electric logs and surveys of the wells drilled by the Lessee into the demised premises in accordance with the provisions of this lease and in accordance with approved current practices of operations of this character in effect at the time it undertakes such operations, and ~~shall promptly file~~ copies of all such logs and surveys, drilling records and well histories, and also all records of well cores and other related information with the State Lands Commission. All data with respect to surveys and electric logs shall be made available at the time taken to any designated employee of the Commission. The Lessee does hereby waive the 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. Any and all information filed by the Lessee with the said Division of Oil and Gas shall be available at all times to the State for the purpose of enforcing compliance with the terms, covenants, and conditions of this agreement and rules and regulations now or hereafter promulgated by the State.

19. 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 or hereafter promulgated by the State, provided, 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, and in the event of a disagreement between the State and the Lessee concerning the quality and/or quantity of the oil, gas, gasoline and/or other products so gauged or measured, the burden of establishing the incorrectness of such gauging and/or measurement shall rest upon the Lessee, and the Lessee is hereby given the right to establish, by proper court proceedings, the correct quality and/or quantity of such oil and/or gas so gauged and/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.

20. ~~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 and/or gas and to promote, without reservoir impairment, the maximum recovery of oil and gas from each zone or separate underground source of supply of oil and/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.

21. Each well drilled pursuant to the terms of this lease shall

be drilled in accordance with the rules and regulations now or which may hereafter be promulgated by the State, only upon filled lands or shall be slant drilled from an upland or littoral drill site to and into the subsurface of the tide or submerged lands covered by this Lease; and 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 or upon the littoral lands or uplands, and all surface operations shall be conducted therefrom.

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 product 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, 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 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 immediately cease, terminate and end, and 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 immediately cease and terminate and end upon receipt of written notice from the State that the State is so exercising its option.

24. The Lessee may use for such operations of Lessee's wells in the demised premises as are necessary, oil produced from Lessee's wells upon the demised premises. Such oil shall be used for fuel 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 such gas so produced may be used ONLY for such gas-lift operations in Lessee's wells in the demised premises as are necessary 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 of compensation therefor, but at no expense to the Lessee, all surplus gas which cannot be marketed by the Lessee at a reasonable price. Such surplus gas as may be taken by the State shall be for the use of the State of California.

25. In the event it should become necessary to dehydrate or clean the oil produced from wells drilled into the demised premises, the Lessee shall be entitled to an allowance of actual cost **not to** exceed  $2\frac{1}{2}$  cents per barrel of net royalty oil so dehydrated or cleaned, or at such other rate per barrel as the parties hereto may mutually

agree.

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. All 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,  
Los Angeles, 12, California,

and

(To the Lessee):

Beloil Corporation, Ltd.,  
P. O. Box 179,  
Inglewood, 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.

29. 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 or against oil, gas and other products produced from the demised premises.

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,

LESSEE

BELOIL CORPORATION, LTD.

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

LIDO PETROLEUM COMPANY

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

O. C. FIELD GASOLINE CORPORATION

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

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 "operations" as used herein is hereby defined to be the actual penetration of the ground with a drilling bit.

3. Any offset 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 determined by the Commission.

4. In the event any well has been or is completed with any part of its producing interval within 500 feet from the exterior boundary of this lease, and if such well is capable of producing oil and/or gas in commercially profitable quantities then the State may notify the Lessee in writing to drill an offset well thereto, and within thirty days from the date of such notice, the Lessee shall commence operations 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 and/or gas.

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

Upper Zone. All oil and/or gas-bearing strata above the base of the geological "marker", generally known throughout the Rincon Oil Field as the Miley Shale. Said Upper Zone as herein defined, includes what have sometimes been called the Top Zone and the Intermediate Zone.

Miley Zone. All oil and/or gas-bearing strata between the base of the Miley Shale and a vertical depth of 2000 feet below the base of the Miley Shale.

First Deep Zone. All oil and/or gas bearing strata between the base of the Miley Zone, as defined herein, and a vertical depth of 3800 feet below the base of the Miley Shale. Said First Deep Zone includes the productive oil bearing strata encountered at a depth of approximately 6570 feet in Chanslor-Canfield Midway Oil Company's well Hobson C-9, and at a depth of approximately 6440 feet in Richfield Oil Company's well Hobson No. 1 in the upland portion of the Rincon Field.

Second Deep Zone. All oil and/or gas-bearing strata below the base of the First Deep Zone as defined herein. Said Second Deep Zone includes the oil-bearing strata encountered at a depth of approximately 7270 feet in Richfield Oil Company's well Fee No. 1 and between depths of approximately 7440 feet and 9337 feet in Chanslor-Canfield Midway Oil Company's well Hobson C-9, and between depths of approximately 7550 feet and 10,515 feet in Chanslor-Canfield Midway Oil Company's well Hobson C-3 in the upland portion of the Rincon Field, and also includes all prospective deeper oil sands.

6. Within sixty (60) days from and after the date of this Lease, the Lessee shall commence operations for the drilling of a well to the Miley Zone or, at Lessee's option, to any deeper Zone as defined herein, and shall continue diligently thereafter with the drilling until such well has penetrated the objective zone to a depth sufficient to determine the productive possibilities of such zone, unless by mutual written consent of the parties hereto, it shall be determined that said well should be drilled to a greater or lesser depth. In drilling said well, an electric log of all formations penetrated shall be made, 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 and/or gas zones penetrated by the well. At least one dip-meter record shall be made during the drilling of the first well. Copies of all electric-logs, surveys, paleontological reports, dip-meter records, rock core samples and all other drilling data shall be immediately available to the representatives of the State. In the event that more than one oil and/or gas zone is indicated by the rock cores and/or electric log, and the first of such zones tested demonstrates that such zone will not be productive of oil and/or gas in commercial quantities, then adequate production tests of all other indicated oil and/or gas zones shall be made before said well is abandoned or drilling operations therein are suspended.



7. With thirty (30) days from and after the date of completion of the first well, or the cessation of drilling or testing operations therein, the Lessee shall commence operations for the drilling of the next well, and operations for the drilling of each succeeding well thereafter shall be commenced within thirty (30) days from and after the date of completion or cessation of drilling of the preceding well, so that there shall be drilled to each commercially productive oil and/or gas zone, if it is mechanically practicable to do so by slant drilling, at least one well for the production of oil for each ten acres of the area contained in the demised premises; and at least one well for the production of gas for each 40 acres of the area contained in the demised premises. At least one dip-meter record shall be made during the drilling of each well.

8. If the first well completed by the Lessee does not penetrate to a depth sufficient to test the oil possibilities of the Second Deep Zone, as defined herein, then within six (6) months from the date of this Lease, the Lessee shall commence operations for drilling at least one well to a depth sufficient to adequately test the oil and/or gas possibilities of said Second Deep Zone.

9. In the drilling of the first well to the Second Deep Zone, the Lessee shall make or cause to be made, and immediately thereafter the Lessee shall furnish to the State, paleontological reports on the rock-core samples taken from said well in order to identify the stratigraphic age and sequence of the geological formations penetrated by the well, and to correlate such formations if possible, with the formations penetrated by deep upland wells in the Rincon and/or Padre Canyon and/or Ventura Avenue Oil Fields.

EXHIBIT "B"

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

$$R = \frac{P - 36.67}{2.5 + .016667P} \times \frac{1.21}{1}$$

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) per cent upon such average daily production.

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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.