AMENDMENT TO PRC 410.1, PRC 429.1
and PRC 1466.1

WHEREAS the State of California by and through the State Lands Commission did lease certain lands known as PRC 410.1 in Ventura County to Pan American Petroleum Company on April 17, 1929 and through successive assignments to Norris Oil Co. on January 26, 1981; and

WHEREAS the State of California by and through the State Lands Commission did lease certain lands known as PRC 429.1 in Ventura County to Sea Cliff Development Company on April 21, 1931 and through successive assignments to Norris Oil Co. on January 26, 1981; and

WHEREAS the State of California by and through the State Lands Commission did lease certain lands known as PRC 1466.1 in Ventura County to Richfield Oil Corporation on August 29, 1955 and through an assignment to Norris Oil Co. on July 22, 1982; and

WHEREAS Norris Oil Co. has requested the State Lands Commission to modify the royalty rates and certain other terms of said leases in order to prevent abandonment of the leases due to the sudden change in market conditions; and

WHEREAS it has been determined to be in the State's best interests to make such modifications to prevent the premature abandonment of the leases and to encourage continued exploration and development of the field;

NOW THEREFORE Norris Oil Co. (Norris) and the State Lands Commission (State) mutually agree as follows:

1. Royalty Payments

a. The State agrees to amend paragraph 2 of leases PRC 410.1 and 429.1 and paragraph 3 of lease PRC 1466.1 and its amendments relative to the calculation and payment of royalty as follows:

> The Lessee agrees to account for and pay to the State in money a royalty on oil and gas of one percent (1%) of the gross daily revenues up to and including $4,500 of the leases taken in the aggregate. The gross daily revenues shall be calculated based on the current market price of oil and gas multiplied by the volumes produced and saved from the leases. The current market price shall be determined and approved by the State and shall include any premium or bonus paid to Norris for the oil and gas. The current market price shall never be less than the highest price in the Rincon Field at which oil and gas is being sold by Norris. Gross daily revenues in excess of $4,500 per day but less than $10,000 per day shall be burdened with a five percent (5%) royalty calculated in the same manner as the first one percent (1%). Gross daily revenues in excess of $10,000 per day shall be burdened with a ten percent (10%) royalty calculated in the same manner as the first one percent (1%). Gross daily revenues for a particular month shall be determined on a retroactive basis on the first day of the following month. Royalties paid in money shall be due and payable not later than the 45th day after the calendar month in which the oil and gas are produced.

b. At the State's option, exercised upon sixty (60) days' written notice, and in lieu of money royalty on oil or gas production, the Lessee shall deliver to the State in kind an equivalent amount of oil or gas production removed or sold from the leased lands.

If the State elects to take in kind its royalty share of oil produced from the leased lands, the State may require the Lessee to provide at the Lessee's shipping tanks, without charge to the State, tankage of sufficient capacity to store the State's royalty share of oil produced from the leased lands during any continuous forty-eight (48) hours.

c. If the State elects to take in kind its royalty share or shares of oil or non-oil production, or both, it may elect thereafter, upon sixty (60) days' written notice, to take its royalty share or shares in money, and upon like notice at any time thereafter, may elect to take its royalty share or shares either in kind or in money.

d. All royalties payable to the State, whether in money or in kind, shall be without deduction for the cost of producing, gathering, separating, compressing, treating, dehydrating, processing, transporting and otherwise making the oil and non-oil production marketable.

e. A royalty of twenty-five percent (25%) on oil and gas production from, wells drilled or redrilled and completed after the effective date of this amendment, in zones, horizons or reservoirs below a depth of minus five thousand (-5,000) feet mean sea level shall be paid on a well-by-well basis after recovery by Norris of its direct drilling costs plus ten percent (10%) only on wells completed and producing in commercial quantities. No royalty shall be paid on dry holes or other noncommercial wells. Costs of noncommercial wells shall not be offset against wells producing in commercial quantities.

2. Bonds

The State agrees to amend Paragraph 14 of PRC 410.1 and PRC 429.1 and Paragraph 13 of PRC 1466.1 to read that Lessee shall not be obligated to execute and maintain a corporate surety bond in favor of the State of California guaranteeing Norris' faithful performance of the leases so long as Norris contributes monies to the Sinking Fund established and described in Paragraph 3 of these amendments. In the event that Lessee shall cease making payments to the fund, then the bonding requirements of the leases shall become operative and Norris shall provide bonds within 60 days of notice from the State to do so.

3. PRC 410.1, PRC 429.1 and PRC 1466.1 are hereby amended to include a new paragraph entitled "Sinking Fund" which shall read as follows:

Sinking Fund

a. In consideration for the State amending its royalty rates and bonding provisions Norris hereby pledges and grants to the State as a secured party a security interest in the sum of $1,000,000.00, which Norris agrees to deliver and deposit with the State within five (5) days of the execution of these amendments, as collateral to secure Norris' compliance with the terms, covenants and conditions of PRC 410, PRC 429 and PRC 1466 including but not limited to abandonment of the leases.

b. It is understood by Norris that it is bound by the terms of the leases to abandon all wells on the leases and to restore the premises and that the abandonment program described in paragraph 3(h) of these amendments is intended to partially accomplish those obligations. The State and Norris agree that Norris is not now in default of these or any other of its obligations under the leases and that the purpose of this pledge is to secure Norris' future performance under the leases. Should Norris fail to meet any of its obligations under the leases it is agreed that the State may retain so much of the collateral as is necessary to satisfy Norris' obligations. To the extent that Norris meets its obligations the State shall release the collateral to Norris.

c. Norris and State agree that the $1,000,000.00 collateral shall be used to establish a sinking fund entitled "Special Deposit Trust Fund" in the State Treasury and it shall be under the exclusive control of the State. The State shall invest the collateral so as to prudently protect and secure its growth.

d. Recognizing that this initial pledge is not adequate to fully collateralize its future obligations Norris agrees to make future contributions to the sinking fund according to the schedule below and that such contributions shall also serve as collateral in which the State is hereby pledged and granted a security interest.

e. For oil and gas production from zones, horizons and reservoirs above a depth of -5000 feet mean sea level Lessee agrees to contribute four (4) percent of its gross daily revenues up to $4500.00 per day plus $0.50 per barrel of oil produced and saved from these leases. Lessee agrees to contribute a further seven and one-half (7 1/2) percent of its gross daily revenues in excess of $4500 but not exceeding $10,000.00 plus $0.50 per barrel of oil produced and saved from these leases. Finally, Lessee agrees to contribute an additional six and two-thirds (6 2/3) percent of its gross daily revenues exceeding $10,000.00 plus $0.50 per barrel of oil produced and saved from these leases. For oil production from zones, horizons and reservoirs below a depth of -5000 feet mean sea level Lessee agrees to contribute $0.50 per barrel of oil.

f. The abandonment costs of the leases are presently projected to be $4,000,000.00. Norris agrees to make contributions as described above until the fund has reached this amount. This amount shall be revised every two years or sooner as the parties may agree to accurately as possible reflect changes in abandonment costs of the leases. The State shall return quarterly to Lessee all monies accruing to the fund, attributable to Lessee's contribution to the fund, including interest, in excess of the projected cost level. As long as the fund does not exceed $4,000,000.00, the State shall retain in the fund as additional collateral all interest and profit accruing on such fund. At the termination or expiration of the last of these leases, all monies in the fund, attributable to Lessee's contribution to the fund including interest and not used for abandonment or other lease-related purposes, shall be returned to Lessee within sixty (60) days of the State's acceptance of a quitclaim(s) for the leases(s). After the sinking fund has reached its determined funding level, Norris shall no longer be obligated to make further contributions to the fund.

g. At the expiration or earlier termination or cancellation of any or all of these leases, Lessee in accordance with its lease terms, agrees to abandon all wells and restore the premises. The State will reimburse Lessee for Lessee's costs incurred in abandoning all wells and restoring the premises until the sinking fund is exhausted. When the sinking fund is exhausted Lessee shall use its own assets.

h. Lessee agrees that within three (3) months of the date of this agreement to provide the State with a program identifying and describing the condition of each of the wells on the leases and an abandonment program for wells warranting such. The abandonment program shall be acceptable to the State. In the event that there is a dispute over the abandonment of a well(s) the State and Norris will refer the dispute within fifteen (15) days to a mutually acceptable arbitrator for resolution. The State and Norris will bear their own costs for such arbitration. Wells designated for abandonment shall be abandoned from Lessee's contributions to the sinking fund as such funds are available.

4. Norris agrees to drill one test well into the zones, horizons or reservoirs described in paragraph 1(e) of these amendments when the price in the Rincon Field at which oil is being sold by Norris reaches a level of twenty (20) dollars per barrel. Once the price of oil in the Rincon Field reaches fifteen (15) dollars per barrel, Norris agrees to immediately apply for and diligently pursue all necessary permits to commence a test well. Spudding of said well shall begin within three (3) months of receipt of all permits, provided the price of oil has reached $20 per barrel. Norris further agrees to drill a succeeding well within 180 days of the

completion of each prior well until such zones, horizons or reservoirs have been developed in accordance with spacing requirements of the leases.

5. Lessee agrees in accordance with good engineering practice to spend a minimum of $200,000 per year to develop reserves from zones, horizons and reservoirs penetrated but not currently producing.

6. The State agrees not to terminate any or all of these leases for noneconomic production. The State reserves the right to terminate any or all of the leases if Lessee is in default of any term, condition or provision of the leases and their amendments.

7. Lessee agrees to amend paragraph 4 of PRC 410.1, PRC 429.1 and PRC 1466.1 regarding assignments to read as follows:

> Except for mortgages existing on the date of these amendments Lessee shall not either voluntarily or by operation of law, assign, transfer, mortgage, pledge, hypothecate or encumber this Lease and shall not sublet the lease lands, in whole or in part, or allow any person other than the Lessee's employees, agents, servants and invitees to occupy or use all or any portion of the lease lands without the prior 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, mortgage, pledge, hypothecation, encumbrance or sublease possesses the qualifications provided in Division 6 of the Public Resources Code, Statutes of California and the rules and regulations of the State. The assignee, transferee, mortgagee, pledgee, hypothecatee, encumbrancee or sublessee shall be bound by

the terms of this lease to the same extent as if such assignee, transferee, mortgagee, pledgee, hypothecatee, encumbrancee or sublessee were the original Lessee, any conditions in the assignment, transfer, mortgage, pledge, hypothecation, encumbrance or sublease to the contrary notwithstanding.

8. The leases, as amended herein are nonresidential real property leases as defined in 11 USC §365.

9. In the event that Norris decides to permanently cease operations for any reason Norris shall offer the State a right of first refusal to take over the leases. If the State shall exercise such right Norris shall quitclaim to the State at no cost the leases and convey to the State at no cost all surface improvements, machinery, pumps, tubing and other equipment necessary to operate the wells.

10. Lessee agrees that these amendments are personal to Norris and that, if Norris is sold or if Norris assigns any or all of these leases, the benefits of these amendments shall not pass to any purchaser or assignee without the prior written approval of the State.

11. The term of these amendments shall be for five (5) years unless extended by the parties. In the event that the term is not extended, then the original terms, conditions and covenants of these leases as amended shall prevail as if these amendments had not been made.

12. The effective date of these amendments of State Oil and Gas Leases PRC 410.1, PRC 429.1 and PRC 1466.1 shall be August 1, 1986.

13. It is further agreed that all other terms and conditions of State Oil and Gas Leases PRC 410.1, PRC 429.1 and PRC 1466.1, as amended, are to remain unchanged and in full force and effect.

14. This agreement will become binding on the State only when approved by the State Lands Commission and executed on its behalf.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment of State Oil and Gas Leases PRC 410.1, PRC 429.1 and PRC 1466.1 as of the date hereafter affixed.

LESSEE:

NORRIS OIL CO.
9454 Wilshire Blvd, Suite 314
Beverly Hills, CA 90212

By ______________

Date: July 11 1986

LESSOR:

STATE OF CALIFORNIA
STATE LANDS COMMISSION
245 W. Broadway, Suite 425
Long Beach, CA 90802

By Claire T. Dedrick
CLAIRE T. DEDRICK
EXECUTIVE OFFICER

Date: 7/11/86