

cnb 2007

**OIL, GAS AND MINERAL LEASE  
(LONG FORM)**

THIS LEASE AND AGREEMENT, made and entered into this 28<sup>TH</sup> day of NOVEMBER 2007, by and between CITY NATIONAL BANK AS SUCCESSOR TRUSTEE of the TESTAMENTARY TRUST established under the Will of ABRAHAM L. GUMP, Deceased, hereinafter called "LESSOR" and EDWARD M. TILBURY whose address is 3607 Country Club Dr., Bakersfield, California 93306 hereinafter called "Lessee".

WITNESSETH: Lessor for and in consideration of the rental paid upon execution hereof, receipt of which hereby acknowledged, and Lessee's covenants and agreements hereinafter contained, Lessor does hereby lease, let and demise unto Lessee the land hereinafter described (herein called the "leased land") for the purpose and with the exclusive right of prospecting, exploring, mining, drilling, and operating the leased land for oil, gas, other hydrocarbons, associated substances, sulfur, nitrogen, carbon dioxide, helium and other commercially valuable substances which may be produced through wells on the leased land, similar to the above-mentioned substances except for water (but not excepting water which may be produced in association with leased substances which may be used by lessee in its operations on the leased land, but not sold) and geothermal resources (hereinafter collectively called "substances") and producing, extracting, taking, treating, storing of oil, removing and disposing of such substances from the leased land together with the right to construct, erect, maintain, operate, use, repair, replace and remove pipelines, telephone, telegraph and power lines, tanks, machinery, appliances, buildings, and other structures, useful, necessary or proper for carrying on its operations on the leased land, the right to drill thereon for water, and the free use of water so obtained (but not water from Lessor's wells) in operations on the leased land, and rights of ways for passage over, upon and across and ingress and egress to and from the leased land, or neighboring lands pooled therewith for any or all of the above-mentioned purposes. Lessor shall have the right to occupy and use the leased land in any manner and to any extent not inconsistent with Lessee's rights or in interference with Lessee's operations hereunder. The land hereby leased and situated in the County of KERN, State of CALIFORNIA, and described as follows:

Township 26 South, Range 19 East, M.D.B. & M.  
Section 25: All

Township 26 South, Range 20 East, M.D.B. & M.  
Section 30: SW4

together with such rights as Lessor may have in any roads, streets, alleys, waterways, canals, sloughs, levees, ditches, easements, rights and rights of way upon, within or adjoining the above described property and containing 800.00 acres, more or less.

**TO HAVE AND TO HOLD** the same for a term of Five (5) years from and after the date hereof and so long thereafter as Lessee shall conduct development operations (including, without limitation, drilling, re-drilling, deepening, repairing, and reworking) or production is maintained in paying quantities on the leased land or on lands pooled or unitized therewith without cessation for more than one hundred twenty (120) consecutive days, or such operations are suspended or excused as hereinafter provided.

In consideration of the leased land, the parties hereby agree as follows:

1. **TERM** On or before Five (5) years after the date hereof (the last day of said period being hereinafter referred to as the "working date" and the entire period being hereinafter referred to as the "drilling term"), Lessee shall either commence "drilling operations" on the leased land and thereafter continue its operations with reasonable diligence until oil or gas or another of said

substances is found in paying quantities or a depth is reached at which further drilling would, in the judgment of Lessee, be impractical or unprofitable, or quitclaim and surrender this lease as herein provided.

2. **RENTAL** Contemporaneously with Lessor's execution of this Lease, Lessee has paid to Lessor Fifteen Dollars (\$15.00) per acre (hereinafter referred to as "delay rental") as rental for the first year of the term hereof. If actual drilling of a well for oil or gas shall not be commenced on the leased land or on lands pooled or unitized therewith on or before one (1) year from the date hereof, this Lease shall terminate unless Lessee shall prior thereto pay or tender to Lessor the sum of Fifteen Dollars (\$15.00) per acre of land then subject of this Lease which shall operate as rental and cover the privilege of deferring the commencement of drilling operations on the leased land for an additional period of one (1) year. In like manner and upon like payments or tenders, annually, Lessee may defer commencement of drilling of a well for successive periods during the drilling term hereof, beyond which there shall be no deferral of drilling operations by payment of rentals.

3. **DEPOSITORY** the payments required to be paid by Lessee hereunder shall be made by check made payable to, and mailed to: City National Bank, as successor Trustee the Abraham L. Gump Trust, 9701 Wilshire Boulevard, Seventh Floor, Beverly Hills, CA 90212

4. **NOTICES** Any notice to be given by either party to the other hereunder may be delivered in person or by registered, certified mail, postage prepaid, FedEx or other overnight carrier, etc. addressed to the party for whom intended as follows: to Lessor at: City National Bank, as successor Trustee the Abraham L. Gump Trust, 9701 Wilshire Boulevard, Seventh Floor, Beverly Hills, CA 90212

to Lessee at: Edward M. Tilbury 3607 Country Club Drive, Bakersfield, California 93306 Either party may from time to time, by written notice to the other, designate a different address which shall be substituted for the one above specified. If any notice from one party to the other (other than a response by Lessee under paragraph 33 hereof which shall be governed by the provision of such paragraph 33) is given by registered or certified mail, service of notice will be considered made on the seventh (7th) day following the date of mailing if properly addressed and postage is fully prepaid.

5. **DEVELOPMENT** If oil, gas or another of said substances is not obtained in paying quantities in the first well drilled on the leased land, or on lands pooled or unitized therewith, Lessee, within one hundred twenty (120) days after its completion or abandonment, as hereinafter defined, shall commence drilling operations for a second well, and shall prosecute the same with reasonable diligence until oil, gas or another of said substances is found in paying quantities, or until it is drilled to a depth at which further drilling would, in the judgment of Lessee, be unprofitable or impractical and said well is abandoned; and Lessee shall in like manner continue its operations until oil, gas or another of said substances is found in paying quantities or this Lease is quitclaimed, terminated, or fully drilled as hereinafter defined; provided, however, that nothing in this paragraph shall require the commencement of drilling operations for the second or any subsequent well (other than an offset well) before said working date. If, however, before said working date, there shall be any period of more than ninety (90) days between the completion or abandonment, as hereinafter defined, of any well and the commencement of drilling operations for the next well or the termination of this Lease, for which rental has not theretofore been paid, Lessee shall pay rental for such period (except for time herein allowed between wells) at the delay rental rate hereinabove set forth on a prorated basis, for the entire balance of such period.

6. **CONTINUOUS DRILLING** Within one hundred twenty (120) days after the completion of a well capable of producing oil and/or gas in paying quantities, Lessee shall commence drilling operations for another well for oil and/or gas and thereafter continuously operate at least one string of tools, allowing not more than one hundred twenty (120) days between the completion or abandonment, as hereinafter defined, of one well and the commencement of drilling operations

for the next succeeding well for oil and/or gas until the leased land is fully drilled as hereinafter defined. Lessee may drill as many additional wells as it may elect in excess of the number required for the leased land to be considered fully drilled.

**7. OFFSETS** If a well is drilled on adjoining property in which Lessor has no interest and the producing interval location thereof is at that time ascertainable and within 1320 feet of the exterior limits of any land embraced in this lease, or, if the producing interval location of such well is not ascertainable at that time, but the surface location thereof is within 1320 feet of the exterior limits of any land at the time embraced in this Lease, and gas (unassociated with oil) but not oil, is produced therefrom in paying quantities, or within 330 feet and oil is produced therefrom in paying quantities, unless a well offsetting the same has been completed or is being drilled by Lessee on the leased land, Lessee, subject to its right to quitclaim as herein provided, within forty-five (45) days after it is ascertained that the production of oil or gas from the well to be offset is in paying quantities and, in the case of a well producing gas but not oil, that the operator thereof is then producing and marketing gas therefrom, shall commence drilling operations to offset such well and drill the same diligently to the strata or zone from which oil or gas is produced from said well to be offset. Lessee shall offset such outside well by drilling to the same producing stratum or zone as the well to be offset, and no well-existing or being drilled on the leased land shall satisfy this offset requirement unless drilled to the same producing stratum or zone from which oil or gas is being produced by the well to be offset, and at a suitable offset location as hereinafter defined. The requirements of Paragraph #6 shall not relieve Lessee of this obligation to offset any producing well in a different stratum or zone from that in which production is obtained on the leased land. For the purpose of satisfying obligations hereunder, an offset well or wells shall be considered as other wells required to be drilled hereunder.

**8 GOOD OIL FIELD PRACTICES** Except as herein otherwise provided, Lessee shall drill and operate each well in accordance with good oil field practice, and in conformity with any conservation or curtailment programs which may be imposed by law or by any appropriate governmental agency. Lessee shall comply with all state, federal and local laws and with the rules, regulations and orders of any federal, state or other governmental agency having jurisdiction in the leased land with respect to the spacing, drilling or producing of wells, or other operations for oil or gas, and if there be any conflict between the same and provisions of this lease, such laws, rules, regulations and orders shall modify or supersede, as the case may be, the relevant provisions of this lease.

**9. SUSPENSION** After the completion of the first oil well, drilling or producing oil hereunder (except of offset wells when wells offset or to be offset are being operated) may be suspended while the market price for oil of the quality produced from the leased land is \$7 or less per barrel at the well or when there is no available market for such oil at the well above said price, and in either case for a period of 30 days after the reason for suspension ceases to exist. In the event Lessee shall complete a well or wells on the leased land capable of producing gas in paying quantities (whether or not oil is also capable of production therefrom), if there is a market at the well for gas, Lessee shall sell so much of said gas as it finds a market for in accordance with reasonable production practices.

However, upon completion of a well or wells on the leased land capable of producing gas or oil in commercial quantities, Lessee shall pay Lessor a minimum royalty hereunder of an amount equal to, and not less than, the delay rental payable during the primary or drilling term hereunder (minimum royalty) per acre annually for the total acreage held subject to this lease irrespective of the operation or suspension of operations of any such well or wells, or the curtailment of production therefrom. If at the expiration of any calendar year Lessor shall not have received royalties and/or delay rentals hereunder above an amount equal to the minimum royalty per acre as aforesaid, Lessee shall on or before the twenty-fifth (25th) day of January next succeeding pay to Lessor an amount equal to the difference between said royalties paid during the preceding calendar year and such minimum royalty per acre.

The minimum royalty payments provided for herein shall be deemed the equivalent of production and shall constitute performance under this Lease if Lessee shall make a diligent

effort to obtain commencement of production from any gas and/or oil well completed on the leased land; provided, however, that Lessee shall not be privileged, in any event, to hold this Lease by actual production plus adjustment to minimum royalty, or by payment of minimum royalty alone, for more than three (3) years, consecutively, or five (5) years, cumulatively.

**10. ROYALTY SHARE** The term "royalty share" as used herein means One-Sixth (1/6<sup>th</sup>) royalty interest.

**11. OIL ROYALTY** Lessee shall pay Lessor as royalty on oil the market price of said royalty share of all oil produced, saved and removed from the leased land after making customary adjustment or deductions for temperature, water and sediment. If Lessee sells said oil, said royalty shall be paid on the basis of the sale price thereof, provided the same is not less than the market price, as hereinafter defined. In computing royalties all gravities shall be taken on the basis of oil containing not in excess of three percent (3%) water and other sediment.

The words "market price" when used herein shall mean the highest posted price paid in the same field in good faith by a responsible person or company to producers generally for products of like grade and gravity in the same field on the day on which such product was removed, saved, sold and shipped from the leased land.

Lessor shall have the option to receive its royalty on oil hereunder either in kind or in money and shall have the right, from time to time, or sixty (60) days written notice to Lessee, exercisable not more often than once every six (6) months, to change the method of payment of Lessor's royalty on oil from payment in kind to payment in money or vice versa. Until Lessor elects otherwise, Lessor's royalty on oil hereunder shall be payable in money. Lessee agrees to provide storage of oil up to thirty (30) days after Lessor's election to take royalty on oil in kind without charge to Lessor provided such storage shall not exceed 500 barrels.

**12. UNITIZATION** Lessee shall pay to Lessor the royalty share of the gross proceeds received from the sale of any gas (excluding residual dry gas from extraction of casinghead gasoline), less the royalty share of compression costs (compression costs as used herein means the cost of compression gas to meet pressure requirements of the buyer) while the same is being sold off said land, or from any payment pursuant to a gas contract for gas not actually taken, but nothing herein contained shall require Lessee to save or market gas from said land unless there shall be surplus above fuel requirements and a market at the well for the same. Where the Lessee utilizes gas off the leased land, the royalty share shall be based upon the market price at the wellhead of said gas.

If casinghead gasoline is extracted from the leased land or lands pooled or unitized therewith by Lessee from the natural gas produced from wells on said lands, then Lessee shall pay to Lessor as royalty 50% of Lessor's royalty share of the market price of the gasoline and 50% of the market price of other hydrocarbons (including residual dry gas) credited to this lease from the gas so treated.

**13. MARKET PRICE** Lessee shall pay Lessor as royalty the market price on the leased land, in the condition as produced, of the royalty share of any substance covered by this Lease, other than oil and/or gas and the products thereof, which Lessee may elect to produce and save or market or utilize from the leased land.

**14. PAYMENT DATE** Settlement shall be made by Lessee on or before the last day of each calendar month for all royalties which accrued during the preceding month, and Lessee shall furnish Lessor monthly statements showing the computation of royalties.

**15. LESSOR INTEREST** Lessee accepts as satisfactory to itself the title of Lessor in the leased land and agrees that Lessor shall not be liable or responsible to Lessee in damages or otherwise by reason of any defects in or any liens or encumbrances on Lessor's title or any want of title in Lessor to the leased land, or any portion thereof, or to any hydrocarbons therein contained or found or produced thereon or taken therefrom, if any third party asserts any claim against Lessor on account of Lessee's extraction or removal of hydrocarbons from the leased land or other

operations of Lessee thereon (including, without limiting the generality of the foregoing, any governmental or other action or proceeding for the abatement of a nuisance or the cleanup, removal or other protection against a hazardous waste as now or hereafter defined), Lessee will defend and indemnify and hold Lessor harmless from all such claims except such portion thereof as represents a claim to Lessor's royalty, provided that upon receiving notice thereof, Lessor shall notify Lessee with reasonable promptness of the bringing of any action or the assertion of any such claim and shall allow Lessee to have Lessee's attorneys appear therein, either alone or in association with Lessor's attorneys (as Lessor may elect), in defending any such action on behalf of Lessor, each party paying the expenses of its own attorneys. Lessee shall promptly notify Lessor in writing of any judicial proceeding brought to the attention of Lessee, and affecting or purporting to affect, Lessee's possession or rights hereunder.

If Lessor owns a lesser interest in the oil, gas and other hydrocarbons in the leased land the entire undivided fee simple estate therein, then any royalties, rental and other payments herein provided for shall be paid to Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

**16. TAXES** Lessee shall reimburse Lessor on demand for all taxes levied or assessed against non-producing petroleum mineral rights during the term of this Lease, but only if such taxes are separately itemized or identified as such on a tax bill. With respect to producing mineral rights, severance taxes and taxes measured by production, Lessee shall pay in the first instance all such producing mineral rights, severance taxes and taxes measured by the value of quantity of oil or gas produced during the term of this Lease; provided, however, that Lessor shall reimburse Lessee for Lessor's royalty share thereof; and further provided that Lessee shall not deduct such taxes from Lessor's share of production or be entitled thereto until Lessee has actually paid the same to the taxing authority involved, at that time Lessee shall be entitled to deduct said taxes from Lessor's royalty.

Lessor shall pay and discharge before delinquency all taxes, assessments and other generally charged taxes which during the term of this Lease shall be levied upon or assessed or charged against the leased land or any part thereof as such, excepting any taxes on mineral rights as provided above.

Lessee shall at its own expense and without any reimbursement by Lessor pay and discharge before delinquency all other taxes, assessments and other governmental charges which, during the term of this Lease, shall be levied upon or assessed or charged against the improvements and personal property constructed or placed upon the leased land by or for Lessee under this Lease; all other taxes, assessments and other governmental charges upon or referable to any operations or acts of Lessee or on its behalf on the leased land; all other assessments, charges and obligations of any kind whatever that by reason of any operation of Lessee may be or might become a lien upon or charge against the leased land, or any part thereof, or any well thereon, and that are created by or shall arise under or by reason of any present or future law, ordinance, regulation or order whatever and all taxes, assessment, and governmental charges levied by or arising under any present or future law, ordinance, or regulation upon or with respect to this Lease, the execution or delivery hereof, or the leasing of the leased land hereunder.

**17. LESSEE'S OBLIGATION** Lessee shall at its own risk and expense provide and promptly pay for all labor, equipment and supervision of whatever kind or nature that may be needed to carry on the operations hereunder and to perform the requirements of this Lease, and nothing herein contained shall obligate Lessor to reimburse Lessee for any costs incurred by it hereunder or to return to or repay to Lessee at anytime any sums paid to Lessor pursuant to the provisions of this Lease; provided, however, that Lessee may recover any overpayment of minimum royalties or production royalties only. Lessee agrees to pay all damages, losses and expenses incurred by Lessor and to indemnify and to hold Lessor and the leased lands free and harmless of and from all damages, losses, expenses (including attorneys' fees in any action arising out of matters herein set forth), liens, liability to or claims of others (including, but not limited to, surface owners, if other than Lessor, surface tenants and other oil and gas lessees) which result from or in anyway arise out of or in connection with (a) any of the operations of Lessee on said lands, (b) the exercise by Lessee of any of its rights hereunder, (c) the doing of any labor or the furnishing

of any materials or supplies to or for Lessee, (d) any act or failure to act on the part of Lessee or of any contractor engaged in doing work for it, or (e) any breach by Lessee or by any such contractor of any of the provisions of this Lease, (f) the Lessee's release or threatened release of pollutants, contaminants, hazardous substances, gas or petroleum on, under, about or from the leased land. This obligation to indemnify and hold harmless shall survive any termination or expiration of the lease or assignment by Lessee of the lease.

**18. INSURANCE** (a) Lessee shall maintain in full force and effect, at its own expense, a policy or policies of worker's compensation insurance as required by the State of California and a policy or policies of comprehensive general liability insurance insuring Lessee and Lessor (and such other persons, firms or corporations as are designated by Lessor as having an interest in the leased land) against any liability for death, personal injury or property damage arising out of or resulting from Lessee's operations hereunder.

Such insurance shall have initial combined single event coverage of not less than \$2,000,000.00. If such coverage amount is at any time inadequate in the considered opinion of Lessor's insurance advisor, Lessee shall increase such coverage to a reasonable amount determined by such insurance advisor. All insurance required of Lessee under the Lease shall be with insurance companies and in a form satisfactory to Lessor and shall not be subject to cancellation or change except after sixty (60) days prior written notice to Lessor. All required insurance policies, or properly executed certificates evidencing the same, together with satisfactory evidence of premium payments, shall be deposited with Lessor prior to Lessee's entering into possession of the leased land and, for renewals, at least thirty (30) days prior to the expiration of such coverage. As long as their respective insurers so permit, each party to this Lease shall cause each insurance policy obtained by it to provide that issuing insurance company waives all right of recovery by way of subrogation against either party to this Lease.

(b) If Lessee is self-insured, Lessee shall demonstrate to Lessor's satisfaction, in writing, that it has adequate and sufficient self-insurance to insure against all claims which could arise out of Lessee's operations on the leased land, or lands pooled or unitized therewith. Lessee, upon written request by Lessor, shall provide proof of any insurance coverage and bonds that may be required by any governmental agency.

**19. INFORMATION** (a) Lessee shall keep and, upon request and without charge, furnish Lessor with copies of logs of all wells drilled upon the leased land. Lessor agrees to keep such information confidential for a period of five (5) years from the date of receipt thereof, or until such information becomes public record, whichever first occurs. Upon request, Lessee shall advise Lessor fully as to the progress of all work upon the leased land. Nothing in this provision shall be construed as authorization to receive interpretative data.

(b) Lessee shall keep true, full and correct books of account, showing its account of the production of oil, gas and other hydrocarbon substances from the leased land or lands pooled or unitized therewith, and shall maintain such records for the term of this Lease and for three years thereafter. Such books, together with all other records of Lessee relating to the performance by Lessee of the covenants hereof, shall be open for copying and inspection by Lessor or its agent at all reasonable times throughout such period. Lessee shall furnish Lessor monthly written statements of the total production for leased land or lands pooled or unitized therewith and the deliveries of oil, gas or other hydrocarbons therefrom during the preceding calendar month and the royalties payable in respect thereto and the data upon which the amount of such royalties is computed, and also copies of the run tickets covering such deliveries. Lessee shall upon request furnish Lessor with copies of any contracts entered into for the sale of oil, gas or other hydrocarbons produced from the leased land or lands pooled or unitized therewith.

(c) Lessee hereby authorizes Lessor its representatives or agents, to examine and take copies of all records of the Division of Oil and Gas of the State of California (including all officers, deputies and agents thereof) and all records of any other public authorities relating to any wells drilled upon the leased land or lands pooled therewith, including, but not limited to, all reports, records, notices and statements filed by Lessee. Lessor agrees to keep all such records, contracts and logs confidential if, to the extent, and during the period that they are on confidential status with the Division of Oil and Gas. Except as to the foregoing confidentiality, Lessee hereby

waives all restrictions now or hereafter imposed by statute or otherwise upon the use of such record by the Lessor as evidence in any litigation by or against Lessee.

(d) The receipt by Lessor of any statement, or any payment of royalty for any period, shall not bind Lessor or Lessee as to the correctness of the statement or payment. Lessor shall also be entitled, from time to time, to one or more independent audits of the records by a certified public accountant designated by Lessor for the purpose of determining compliance with this Lease. Such audit shall be conducted during usual business hours at Lessee's place of business within the State of California. If the audit shows that there is a deficiency in the payment of royalty, the deficiency or deficit shall be immediately due and payable. The costs of the audit shall be paid by Lessor unless the audit shows that Lessee understated proper royalty by more than ten percent (10%), in which event Lessee shall pay all costs of the audit.

**20. EQUIPMENT REMOVAL** Lessee shall have the right at any time to remove from the leased land any machinery, rigs, piping, casing and other property and improvements belonging to or furnished by Lessee, including that installed in wells (other than as provided in Paragraph 29 hereof for water wells) or otherwise affixed to the land; provided that, if this Lease terminates in its entirety, such removal shall be completed within ninety (90) days thereafter and, in the event of the termination of this Lease as to a portion of the leased land, all such property not needed by Lessee for its operations on land retained under this Lease shall be removed from the land as to which this Lease is terminated within ninety (90) days after such partial termination and the remainder shall be removed within 3 months after the termination of this Lease in its entirety. Lessee, after termination of this Lease, shall fill all sump holes and other excavations, made by it on the leased land and in other respects restore the leased land as nearly to its original condition as is reasonably practical, but Lessee shall not be obligated to restore anything for which it may theretofore have made payment by way of damages.

**21. SURRENDER** Lessee, at its option, may at any time quitclaim and surrender all of the leased land, in which event this Lease shall terminate and Lessee shall be relieved of all obligations hereunder save and except the obligation to pay rents and royalties theretofore accrued and any obligation hereby imposed for removal of equipment and restoration of the leased land, and any tax or assessment which Lessee would be obligated otherwise to pay under paragraph 16, hereof, prorated for any of the tax or assessment year for which Lessee held the leased land. Lessee, at its option, may at any time after drilling on the leased land or on land properly pooled with all or a portion of the leased land and from time to time thereafter, quitclaim and surrender any part of the leased land not desired by it, (but only to all depths and strata in the surrendered acreage) and in such event the amount of any rental provided for in this Lease shall thereafter accrue only on the basis of the land not so quitclaimed, and the number of wells to be drilled before the land may be deemed fully drilled shall be determined by the acreage retained. Land so quitclaimed shall remain subject to the easements and rights of way herein provided for so long as necessary to accommodate operations being carried on by Lessee on the retained part of the leased land or lands pooled therewith. Anything to the contrary herein notwithstanding, Lessee prior to drilling may make no partial release or quitclaim as provided under this Paragraph 21 hereof comprising less than 20 acres if oil has been discovered in paying quantities on the leased land, otherwise not less than 160 acres in a rectangular shape, the length of which shall not be more than twice the width thereof.

**22. PARTIAL SURRENDER** Lessee may at any time with respect to all of the leased land or, at any time or from time to time after drilling with respect to a designated part of the leased land subject to the acreage limitation provided in Paragraph 21 hereof, (a) surrender its right to produce oil, or (b) surrender its right to produce gas. A surrender of the right to produce oil shall include a surrender of the right to produce the gas that will necessarily be produced therewith. A surrender of the right to produce gas shall include a surrender of the right to produce associated liquids which will necessarily be produced therewith. A surrender of oil rights in all the leased land will relieve Lessee of further obligation to drill oil wells. A surrender of oil rights in a part only of the leased land will reduce the number of required oil wells to a number determined by the acreage as to which oil rights are retained by Lessee. A surrender of oil rights shall have no

effect on obligations to drill for gas and a surrender of gas rights shall have no effect on obligations to drill for oil.

**23. RELIEF FROM PERFORMANCE** Performance of covenants and conditions imposed upon Lessee hereunder shall be excused while, and to the extent that, Lessee is hindered in or prevented from complying therewith, in whole or in part, by war, riots, strikes, lockouts, action of the elements, accidents, inability to obtain material in the open market or to obtain transportation therefore, laws, rules, and regulations of any federal, state, municipal or other governmental agency or any other cause beyond the control of the Lessee, whether similar or dissimilar to those herein specifically enumerated and without regard to whether such cause exists at the date hereof or hereafter arises; provided, however, that Lessee shall provide written notice to Lessor of any claim of suspension or excuse of Lessee's obligations under this Paragraph 23, specifying with particularity the act, event, or condition giving rise to such claim of suspension or excuse and specifying the date on which such act, event, or condition arose. The obligations of Lessee under this Lease shall not be suspended or excused pursuant to this Paragraph 23 unless and until such written notice to Lessor is given and shall not be suspended or excused by any act, event, or condition as to which Lessor has not been so notified. Lessee shall diligently pursue the removal or lifting of such act, event, or condition in such manner as may reasonably be practicable throughout the course of its existence. Notwithstanding anything herein contained to the contrary, the obligations of Lessee hereunder shall not be suspended or excused by reason of failure to obtain any permit for the drilling of the initial well unless such permit shall have been applied for at least six (6) months prior to the expiration of the last year of the primary term hereof, and such application shall have been diligently pursued. Lessee's obligations hereunder shall not be suspended or excused by reason of failure to obtain a permit for the drilling of a well, in any event, for a period of longer than eighteen (18) months from the date of application therefore. The failure to obtain any other governmental permit or entitlement shall not be deemed an event of force majeure unless Lessee shall have submitted a timely and complete application therefore and such application shall have been diligently pursued; in which event Lessee's obligations shall not be suspended hereunder for a period of longer than one (1) year from the date a completed application was filed.

**24. DEFAULT** In addition to all other rights and remedies of Lessor under this Lease or the law, if Lessee shall be in default in the performance of any of Lessee's covenants under this Lease, and if for a period of ten (10) days as to the payment of royalties, including minimum royalties or sixty (60) days as to other defaults, after written notice by Lessor of such default, Lessee shall fail to commence and thereafter diligently and in good faith to prosecute the remedying of such default, Lessor may terminate this Lease; provided, however, that Lessor shall not be required to give any notice of default for the failure of Lessee to tender the full delay rental amount due on or before the annual rental due date, or for Lessee's failure to commence and to prosecute the drilling of the first well or any subsequent well as provided for herein, and upon such failure of Lessee, the Lease, at the option of Lessor, shall immediately terminate. Upon any such termination of this Lease, Lessor, without notice or demand, may reenter the leased land or any part thereof, and expel, remove and put out Lessee or any person or persons occupying the leased land, and, if not removed by Lessee under the provisions of paragraph 20 hereof, Lessor may remove all property therefrom using such force as may be necessary to gain repossess and enjoy the leased land as before this demise, without prejudice to any other remedies to which Lessor might be entitled and without liability to any person for damages sustained by reason of such removal, provided that no default in the performance of any of the conditions or provisions hereof as to any well or wells shall affect the right of Lessee to continue Lessee's possession and operation of any other well or wells (to depths earned) in regard to which Lessee is not in default, together with the Well Tract earned and a drill and surface wellsite parcel of two (2) acres for each such drilling or producing oil or gas well, and rights-of-way and easements necessary for Lessee's operation thereof.

In addition, without limiting in any way Lessor's remedies upon default, any amount due under this Lease which is not paid when due, unless excused pursuant to paragraph 23 hereof, shall bear interest at a rate per annum equal to five percent (5%) plus the rate prevailing on the 25th



day of the month preceding the due date as established by the Federal Reserve Bank of San Francisco on advances to member banks under Sections 13 and 13a of the Federal Reserve Act as now in effect or hereafter from time to time amended; Provided, however, in no event shall such interest be less than ten percent (10%) per annum nor greater than the maximum amount allowed by law.

**25. AFTER ACQUIRED INTEREST** Should Lessor hereafter acquire any additional right, title or interest in or to the leased land, it shall be subject to the provisions hereof to the same extent as if owned by Lessor at the date hereof. Lessor agrees that if Lessee shall make any payment on account of any tax not required to be paid by it under the conditions hereof or any mortgage or other lien at the time in default, on or against any of the lands subject to this Lease, it shall, in addition to the right of subrogation, have the right to reimburse itself out of any royalties or rentals accruing hereunder:

**26. ASSIGNMENT.** If this Lease shall be assigned as to a particular part or parts of the leased land, such division of the leasehold estate shall constitute and create separate and distinct holdings under the Lease of and according to the several portions of the leased land as thus divided, and the holder or owner of each such portion of the leased land shall be required to comply with and perform Lessee's obligations under this Lease for and only to the extent of its portion of the leased land, provided that nothing herein shall be construed to enlarge or multiply the drilling or rental obligations, and provided further that the commencement of the drilling operations and the prosecution thereof, as provided in paragraphs 1, 5, and 6 hereof, either by the Lessee or any assignee hereunder shall protect the Lease as a whole. No change in the ownership of land or minerals covered by this Lease and no assignment or transfer by operation of law or otherwise of rents or royalties shall be binding on Lessee until it has been furnished with satisfactory written evidence thereof.

Lessee shall not assign or sublet this Lease or any part thereof or interest therein without Lessor's previous consent in writing, which consent shall not be unreasonably withheld. Lessee shall give Lessor prompt written notice of any assignment made pursuant to this Paragraph. The terms of this Paragraph shall apply to any further assignment by an assignee or sublessee holding under an assignment or sublease consented to in writing by Lessor. Any purported assignment or sublease in violation of this Paragraph shall be void and of no effect.

If Lessee files a voluntary petition in bankruptcy or is finally adjudged bankrupt in any involuntary bankruptcy proceedings, or in the event that any voluntary or involuntary proceedings for the reorganization of Lessee shall be instituted by anyone (other than Lessor) under any of the provisions of the bankruptcy laws of the United States, or if (except in proceedings instituted by Lessor) a receiver or judicial trustee or custodian shall be appointed for, or any lien or writ of attachment, garnishment, execution or distraint shall be levied upon any of the rights or interest of Lessee under the Lease which are not bonded against and caused to be released by Lessee within a period of thirty (30) days, or if there shall be an assignment of any of the rights or interest of Lessee under this Lease for the benefit of creditors, which is not judicially contested in good faith by Lessee and resolved in favor of Lessee or satisfied by Lessee within 30 days of the creation thereof or if there shall be an assignment of any of the rights or interest of Lessee by operation of law other than as the result of a merger, then, in addition to any and all other rights and remedies available to it, Lessor may, at its option, by written notice to Lessee, within ninety (90) day after receiving actual knowledge of such event, terminate this Lease and all rights and interests of Lessee under this Lease. The provisions and agreements contained in this Paragraph 26 with respect to Lessee shall apply to any and all sublessees, assignees, transferees, mortgagees and other persons holding or claiming any of the rights or interest of Lessee under this Lease. Any of the rights of Lessor under this Lease may be exercised by Lessor itself or by any person authorized by Lessor so to do.

**27. POOLING** Lessee shall have the right at its option, at any time, either before or after the discovery of oil, gas or other substances on the leased land to present to Lessor a specific proposal to combine and pool all or any part of the leased land or interest therein into one or more operating units with any other lands or interests therein (whether held by Lessee or others

and whether or not the surface of such other land may be used for oil or gas development purposes). If any of the land sought to be pooled has not been divided into sections by the United States Government, then Lessee shall project sections thereon, following as nearly as practicable the usual Government system, and such projected sections shall be deemed "sections" for the purpose of this provision. Lessor may, in its sole discretion, either consent in writing to the formation of such pool or operating unit, or withhold its consent, and no pool or operating unit may be formed without the prior specific written consent of Lessor. Each operating unit created hereunder with the consent of Lessor shall be created by and shall become effective upon the execution by Lessee and the recording in the office of the appropriate County Recorder of a Declaration of Pooling setting forth the exterior boundaries of the unit so created and describing the lands pooled thereunder, followed by the prompt mailing of a copy thereof to Lessor. If there are any lands or interests in lands within the exterior boundaries of any operating unit which are not pooled therein, Lessee may, at any time after creation of such unit, add any or all such additional lands or interest to such unit by executing a Supplemental Declaration of Pooling, but no retroactive adjustment or royalties shall be made. Promptly after execution of each Declaration of Pooling and each Supplemental Declaration of Pooling Lessee shall give written notice thereof to Lessor. Any operating unit may include land, upon which a well has theretofore been completed or upon operations for drilling have theretofore been commenced, and within the meaning of the requirements of the Lease any such well or operations, if off the leased land, shall be considered as having been commenced immediately after the effective date of such pooling. Production, drilling or reworking operations anywhere on the operating unit created hereunder shall be treated as production, drilling or reworking operations on that portion of the leased land properly included in such operating unit. Any portion of the leased land included in an operating unit pursuant to this Lease shall thereafter during the term of such operating unit be deemed to be segregated from the balance of the leased land and any portion of the leased land not included within such unit shall be subject to further rental, development or release in accordance with the terms of this Lease, and Lessee shall not be entitled to hold any land not so included by virtue of drilling upon or production from land included in such unit. There shall be allocated to the leased land the proportion of the pooled production from any such operating unit (whether or not such production is from the leased land) that the number of surface acres covered by this Lease and included in such unit bears to the total number of surface acres in such unit; royalties shall be paid hereunder only upon that portion of such production so allocated, and as to pooled production from land in such unit such royalties shall be in lieu of any other royalties. If taxes of any kind are levied or assessed which are based upon the quantity of pooled substances underlying or produced from any such operating unit, then the share of such taxes to be borne by Lessor as provided in this Lease shall be proportional to the share of production from such unit allocated to the leased land. Lessee may at any time quitclaim to the persons entitled thereto all or any part of the land in any such operating unit and no owner of land in such unit not owning any interest in quitclaimed land, except by virtue of such pooling, shall have any interest in such quitclaimed land after the quitclaim is delivered or recorded. Allocation of production as aforesaid from any such operating unit, whether to the leased land or in like manner to other lands therein, shall continue notwithstanding any quitclaim or other termination, either in whole or in part, of this or any other lease covering lands in such unit until such time as the owner of such land shall (or shall give other the right to) drill for or produce any of the pooled substances from any pooled part of such lands, whereupon all such lands formerly included in such unit and as to which the Lease covering the same shall have been terminated, shall be excluded in determining the production to be allocated to the respective lands in such units and in prorating taxes; and in the event of the failure of Lessor's or any other owner's title as to any portion of the land included in any such operating unit, such portion of such land shall likewise be excluded from such unit; provided that Lessee shall not be held to account for any production allocated to any lands excluded from any such operating unit unless and until Lessee has actual knowledge of the aforesaid circumstances requiring such exclusion. Lessee may, at any time either before or after the commencement of the drilling of a well on lands included in any such operating unit but prior to the discovery thereon of the substance for which the unit was formed, or at any time after the abandonment of all wells drilled on such unit, wholly dissolve such unit by executing and recording in the office of the appropriate County Recorder a Declaration of

Dissolution. Promptly after execution of such Declaration of Dissolution Lessee shall give written notice thereof to Lessor. Upon the dissolution of any such operating unit, whether or not this Lease or any other Lease involved therein remains in effect, all rights of Lessor hereunder to royalty on pooled substances produced from the lands which were so pooled (other than the leased land) shall cease and terminate; but such dissolution shall not otherwise affect or impair any of Lessee's rights or obligations under this Lease, including its right upon obtaining the prior written consent of Lessor to create a new operating unit or units out of the lands previously pooled pursuant to this paragraph, or constitute a surrender of any part of or any interest in the leasehold estate created hereby. The sale, conveyance or other transfer of, or of any interest in, any portion or portions of the leased land which are at the time of such transfer subject to an operating unit shall (unless the instrument effecting such transfer expressly provides otherwise) be deemed to include and shall operate as a transfer and assignment of all of the transferor's interest, rights and benefits under this Lease (including the right to royalty on allocated production from the lands subject to any such unit) insofar as such interest, rights and benefits pertain to or are allocated hereunder to the portion or portions of the leased land or interest therein so transferred. For the purpose of determining drilling obligations in such unit, which shall be equal to the drilling obligations set forth hereinabove in this Lease, the entire acreage so pooled shall be treated as if it were covered by one Lease and the drilling of a well in any part of such unit, whether or not on land covered by this Lease, shall fulfill Lessee's drilling obligations under the Lease to the same extent as if such well were drilled on land covered by this Lease and no offset obligations shall accrue with respect to the tracts of and included within any pooled unit.

28. **DRILLSITES** Drilling operations under this Lease may be conducted by means of a well or wells, the surface locations of which are on other lands and which are drilled into and bottomed in the leased land (any such well being deemed to be drilled on the leased land) or by means of a well or wells the surface locations of which are on the leased land and which are bottomed in the leased land, or by a combination of such wells. Drilling operations under land pooled on accordance with Paragraph 27 may also be conducted by means of a well or wells, the surface locations of which are other lands and which are drilled into and bottomed in the pooled lands (any such well being deemed to be drilled on the pooled lands), or by means of a well or wells the surface locations of which are on the pooled lands and which are bottomed in the pooled lands, or by a combination of such wells.

29. **WATERWELLS** If Lessee drills a water well on the leased land for the production of water for its operations on the leased land which shall be permitted only with written consent of Lessor granted or withheld at Lessor's sole discretion, Lessee agrees that if Lessee no longer desires said well, or if this Lease terminates, Lessee will remove the pump, tubing and power plant from said water well and will cap the surface casing and otherwise leave same in such condition as may be required by any law or regulation, but otherwise will leave said well in such condition that Lessor may subsequently equip the well for the production of water for Lessor's own use.

30. **SEISMIC OPERATIONS** Lessor hereby grants to Lessee or to Lessee's nominee, for Lessee's benefit, permission to conduct geological and geophysical surveys on said land by any methods other than those involving the use of explosives, whether now known or not, including the right to drill core holes for the purpose of determining subsurface geological conditions, provided that Lessee, or Lessee's nominee shall pay the party or parties entitled thereto for any damages to person or property, including damage to water wells located on said land, resulting from the making of such surveys. Lessor reserves the right for itself and others, to conduct geological and geophysical surveys for mineral substances not covered by this Lease, even though such surveys may incidentally disclose information relating to covered substances. The permission herein granted to Lessee shall otherwise be exclusive.

31. **DRILLING OPERATIONS** The following terms or phrases, and variations thereof, except where the context requires a different meaning, shall have the following meanings in this Lease:

(a) The words "drilling operations" as used herein shall mean the location of a drilling rig on the leased land or lands pooled therewith and the spudding of a well both of which must have occurred before "drilling operations" will be deemed to have commenced.

(b) The leased land shall be deemed "fully drilled" when there has been drilled a sufficient number of oil and/or gas wells to earn Well Tracts, as hereinafter defined, to encompass all of the leased land.

(c) The term "suitable offset location" as used in Paragraph 7 of this Lease shall mean a location within a distance from the boundary line separating the properties equal to the distance from the well to be offset to said boundary line (though the offset will need not in any event be closer than 200 feet from said boundary line) and within one-half (1/2) of such distance from a line drawn at right angles to such boundary line from the well to be offset through such boundary line and extended through the leased land.

(d) A "Well Tract" as used herein shall mean the following:

- (i) In the case of an oil well drilled to a depth of 4000 feet or less - ten (10) acres;
- (ii) In the case of an oil well drilled from 4001 feet to 8000 feet - twenty (20) acres;
- (iii) In the case of an oil well drilled from 8001 feet to 12,000 feet - forty (40) acres;
- (iv) In the case of an oil well drilled from 12,001 feet to 16,000 feet - eighty (80) acres;
- (v) In the case of an oil well drilled below 16,000 feet - one hundred sixty (160) acres;
- (vi) In the case of a gas well drilled to a depth of 8000 feet or less - one hundred sixty (160) acres;
- (vii) In the case of a gas well drilled from 8001 feet to 12,000 feet - three hundred twenty (320) acres;
- (viii) In the case of a gas well drilled below 12,000 feet - six hundred forty (640) acres;

(e) The term "oil well" is any well

- (i) which produces crude petroleum oil not associated with gas at the time of production, or
- (ii) which produces one barrel or more of crude petroleum oil to each 2000 cubic feet of natural gas, or
- (iii) which produces crude petroleum oil from a formation of producing horizon productive of oil only, encountered in a well bore through which gas also is produced through the inside of another string of casing.

(f) The term "gas well" is any well

- (i) which produces natural gas not associated with or blended with crude petroleum oil at the time of production, or
- (ii) which produces more than 2000 cubic feet of natural gas to each barrel of crude petroleum oil from the same producing horizon, or
- (iii) which produces natural gas only encountered in well bore through which crude petroleum oil also is produced through the inside of another string of casing.

(g) For the purpose of computing the timing of Lessee's drilling obligations under Paragraphs 5 and 6 hereof, and for that purpose only, a well drilled upon the leased lands or on land pooled or unitized therewith, shall be deemed "completed" or "abandoned," as appropriate, on the sixtieth (60th) day following release of the drilling rig therefore.

**32. COVENANTS AND CONDITIONS** The waiver by Lessor of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition for any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance by Lessor of any sum due under this Lease shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular sum accepted.

**33. DOCUMENTATION** Upon request by Lessor from time to time, Lessee shall promptly execute and deliver to Lessor any document, including an estoppels' certificate, which: (i)

certifies this Lease is unmodified and in full force and effect, or if modified, states the nature of such modification and certifies this Lease as modified is in full force and effect; and (ii) certifies the date to which the Delay Rental, royalty, an other money charges are paid; and (iii) acknowledges that there are no uncured defaults on the part of Lessor hereunder; and (iv) otherwise evidences the status of this Lease as may be requested by Lessor. Failure by Lessee to deliver such document within thirty (30) days from receipt of Lessor's request shall be conclusive against Lessee that this Lease is in full force and effect without modification except as may be represented by Lessor, that no uncured defaults in Lessor's performance exist, and that no Delay Rental, royalty or other sum due or to become due under this Lease has been prepaid. Such response document shall be deemed delivered by Lessee upon the earlier of actual receipt by Lessor or on the seventh (7th) day following its deposit in the U.S. mail, properly addressed and with first class postage fully paid.

34. **EXECUTION OF LESSEE** If Lessee is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the bylaws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms.

35. **EXECUTION OF LESSOR** Lessor acknowledges that CITY NATIONAL BANK is executing this Lease in its fiduciary capacity and not in its corporate capacity and that CITY NATIONAL BANK in its corporate capacity does not and shall not incur, directly or indirectly, any liabilities hereunder. The rights and claims of Lessee shall be limited to such claims as said party may have against the trust, probate, guardianship, conservatorship or other estate (as the case may be ) represented herein by CITY NATIONAL BANK, AS SUSSECCOR TRUST.

36. **ADDITIONAL NOTICES** In addition to the notice requirements set forth elsewhere in this Lease, Lessee shall give Lessor oral notice by telephone or in person, followed by prompt written confirmation, at the telephone number and address set forth in paragraph 4 above, as follows:

- (a) Notice at least seventy-two (72) hours prior to entry on the leased land with a drilling rig;
- (b) Notice at least seventy-two (72) hours prior to spudding any well drilled on the leased land or on land pooled therewith;
- (c) Notice within seventy-two (72) hours of the release of a drilling rig from any well on the leased land or any land pooled therewith;
- (d) Notice within seventy-two (72) hours of completion of any well drilled on the leased land or on land pooled therewith;
- (e) Notice at least seventy-two (72) hours prior to abandonment of any well drilled on the leased land or on land pooled therewith;
- (f) Notice of the first sale of any substance from a well drilled on the leased land or on land pooled therewith;
- (g) Notice of cessation of production accompanied by a description of the reasons therefore, within fifteen (15) consecutive days following any such cessation;
- (h) Notice within ten (10) days of completion of any well with a producing interval within 1320 feet of an exterior boundary of the leased land in which Lessee has any economic interest upon adjacent lands that are not pooled with the leased land and in which Lessor is not a mineral owner, which notice shall include a description of such well, its producing zone(s) and surface drillsite and bottom hole location.

37. **ZONE SURRENDERS** In the event oil and/or gas is discovered on the leased land covered hereby by drilling operations conducted in accordance with the terms hereof, then Lessee shall be entitled to hold by production each appropriate Well Tract in a reasonably compact shape, pursuant to the spacing provisions of the Lease, surrounding each well then capable of producing oil and/or gas, in paying quantities, to a depth of not more than one hundred feet (100') below the deepest horizon (or its stratigraphic equivalent) from which each such well is then capable (without further drilling operations) of producing oil and/or gas, or either of them, in paying quantities. Ten (10) years after the date of first production (the same being defined as the actual

harmless agreement shall apply to any contamination caused by Lessee, or Lessee's agents, invitees or assignees and shall survive the termination or expiration of this lease.

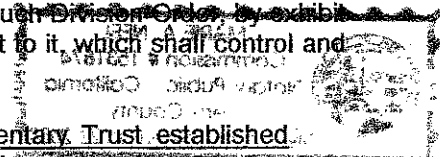
(g) In the event that any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work of any kind or nature (the "Remedial Work") is reasonably necessary under any applicable local, state or federal law or regulation, any judicial order, or by any governmental or non-governmental entity or person because of, or in connection with the future presence, suspected presence, release or suspected release of a hazardous substance into the air, soil, groundwater, surface water or soil vapor at, on, about, under or within the leased land (or any portion thereof), Lessee shall within thirty (30) days after written demand for performance thereof by Lessor (or such shorter period of time as may be required under any applicable law, regulation, order or agreement), commence to perform, or cause to be commenced, and thereafter diligently persecute to completion, all such Remedial Work. All Remedial Work shall be performed by one or more contractors, approved in advance in writing by Lessor and under the supervision of a consulting engineer approved in advance in writing by Lessor. All costs and expenses of such Remedial Work shall be paid by Lessee including, without limitation, the charges of such contractor(s) and/or the consulting engineer, and Lessor's reasonable fees and costs incurred in connection with monitoring or review of such Remedial Work. In the event Lessee shall fail to timely commence, or cause to be commenced, or fail to diligently prosecute to completion, such Remedial Work, Lessor may, but shall not be required to, cause such Remedial Work to be performed and all costs and expenses thereof, or incurred in connection therewith, shall become part of Lessee's obligations under this lease.

(h) Lessor is authorized by itself, its agents, employees or workmen to enter at any reasonable time upon any part of the leased land for the purposes of inspecting the same for hazardous substances and Lessee's compliance with this Paragraph 39 and such inspections may include, without limitation, soil borings. (i) Lessee agrees that Lessor's rejection of any proposed assignee or sub-tenant or license on the ground of an increased use of hazardous substance on the leased land shall be deemed "reasonable" within the meaning of Paragraph 26.

(j) Nothing in this Paragraph 39 shall limit any rights of Lessor or obligations of Lessee under this lease, but shall be in addition to all such rights and obligations.

40. **DIVISION ORDERS** In the event Lessee requests Lessor to execute a Division Order, and lessor elects at it's sole discretion to execute it, Lessor may add to such Division Order, by exhibit or addendum, the following provision or one substantially equivalent to it, which shall control and prevail over any inconsistent provision in such Division Order:

CITY NATIONAL BANK, as Successor Trust of the Testamentary Trust established under the Will of Abraham L. Gump, Deceased executes this instrument in a fiduciary capacity only and shall have no liability in its individual capacity. This Bank, as fiduciary, warrants title to the oil and/or gas produced from the described property insofar as its interest as fiduciary covers the proceeds actually received by it, and makes no other warranty, indemnity or guarantee of any kind. Anything contained in this instrument to the contrary notwithstanding the execution of said instrument by CITY NATIONAL BANK as fiduciary, does not constitute a ratification of any oil and/or gas lease, pooling or unitization agreement or provision therefore, or oil and /or gas sales purchase contract covering production from or attributable to the land described herein and does not amend or alter the lease or any amendment thereto covering the interest or interests for which this Bank serves in its fiduciary capacity.



date the hydrocarbons are first sold from the leased lands, or from any unit formed which includes all or a portion of the leased lands), Lessee shall release and surrender to Lessor all deeper depths or zones in the leased lands 100 feet and more below the deepest producing interval in each Well Tract, situated within the leased land either partially or wholly together with all reasonably necessary or convenient surface rights and rights to pass through the retained depths or zones for Lessors' or their assigns' testing and development of, and production from, such released deeper depths or zones, provided, however, such surface rights and rights to pass through the retained depths or zones shall not interfere with Lessee's operations on the leased lands.

**38. LESSEE PERFORMANCE** Lessee shall operate each well on the leased land continuously in a reasonable and prudent manner, consistent with securing ultimately the maximum production from the leased land, so long as such well shall be capable of producing oil, gas or other hydrocarbons in paying quantities. Lessee shall keep all producing wells cleaned out and in good condition. Provided, however, that gas well (s) may be operated at such capacity as a reasonably negotiated gas purchase contract, consistent with those obtainable in the vicinity, will allow.

**39. ENVIRONMENTAL CONDITIONS** (a) Lessee acknowledges that Lessor shall not be deemed to have made (and Lessor hereby disclaims) any representation or warranty, express or implied, as to the condition of the leased land or any improvements located thereon. Lessee represents and warrants that it has no knowledge of any violation of any applicable federal, state or local statute, law or regulation pertaining to the environmental condition of the leased land, and has received no notice from any governmental body claiming any violation of any such statute, law or regulation

(b) Lessee shall not use, store or dispose of any hazardous substance on the leased land except those hazardous substances listed in the California Department of Health Services Drilling Mud Additives used in Non-hazardous Drilling Muds and Fluids and then only in quantities expressly allowed. Lessee shall not use, store or dispose of any hazardous substance (other than as permitted by this Lease) without Lessor's prior written consent. Lessee shall report to Lessor on each anniversary date of this Lease the identity and amount of any hazardous substance on the leased land.

(c) If Lessee uses, generates, manufactures, produces, stores, releases, discharges, or disposes of on, under or about the leased land or transports to or from the leased land any hazardous substance or allows any other person or entity to do so, it will do so in strict accordance with applicable requirements of State, Federal or Local laws, regulations, ordinances, rules or guidelines.

(d) Lessee shall give prompt written notice to Lessor of:

(i) any proceeding or inquiry by any governmental authority (including, without limitation, the California State Department of Health Services) with respect to the presence of any hazardous substance on the leased land or the migration thereof from or to other property;

(ii) all claims made or threatened by any third-party against Lessor or the leased land relating to any loss or injury resulting from any hazardous substance; and

(iii) Lessee's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the leased land that could cause the leased land or any part thereof to be subject to any restrictions on ownership occupancy, transferability or use under any environmental law.

(e) Lessor shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with any environmental law.

(f) Lessee hereby agrees to indemnify and hold harmless Lessor, its directors, officers, employees, agents, successors and assigns against and from any and all cost, claims, loss or liability, including third-party claims and regardless of legal theory, arising directly or indirectly out of or attributable to any soil or ground water contamination on, under or adjacent to the leased land or the storage, release, threatened release or disposal or wastes of any kind on the leased land, including without limitation costs of clean-up, civil penalties assessed for any such contamination, disposal or other remedial or preventative action. This indemnity and hold

Executed by:

Edward M. Tilbury

CITY NATIONAL BANK, as Successor Trustee of  
The Testamentary Trust established under the Will  
Of Abraham L. Gump, deceased

*[Handwritten signature of Edward M. Tilbury]*  
\_\_\_\_\_  
LESSEE

*[Handwritten signature of Kim R. Hose]*  
\_\_\_\_\_  
Kim R. Hose, Vice President  
LESSOR

**CALIFORNIA ALL PURPOSE ACKNOWLEDGMENT**

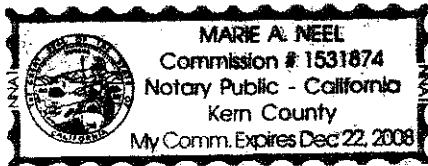
STATE OF CALIFORNIA )

COUNTY OF KERN )

On NOV. 28, 2007, before me, MARIE A. NEEL, NOTARY PUBLIC  
Name and Title of Officer ("Jane Doe, Notary Public")

Personally appeared EDWARD M. TILBURY  
Name of Signer(s)

personally known to me -- or --  proved to me on the basis of satisfactory evidence to  
be the person(s) whose name(s) is/are subscribed to the within  
instrument and acknowledged to me that  
he/she/they executed the same in his/his/their authorized  
capacity(ies), and that by his/his/their signature(s) on the  
instrument the person(s), or the entity upon behalf of which the  
person(s) acted, executed the instrument.



WITNESS my hand and official seal

*[Handwritten signature of Marie A. Neel]*  
\_\_\_\_\_  
Signature of Notary Public



### CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

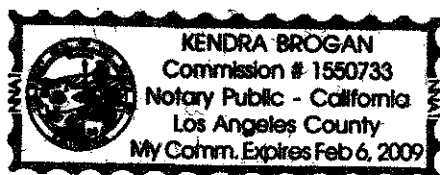
County of Los Angeles } ss.

On 11-30-07, before me, Kendra Brogan  
Date Name and Title of Officer (e.g., "Jane Doe, Notary Public")

personally appeared Kim B. Hosea  
Name(s) of Signer(s)

- personally known to me
- proved to me on the basis of satisfactory evidence

to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



WITNESS my hand and official seal.

[Signature]  
Signature of Notary Public

Place Notary Seal Above

#### OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

#### Description of Attached Document

Title or Type of Document: Oil, Gas and mineral Lease

Document Date: \_\_\_\_\_ Number of Pages: \_\_\_\_\_

Signer(s) Other Than Named Above: \_\_\_\_\_

#### Capacity(ies) Claimed by Signer

Signer's Name: \_\_\_\_\_

- Individual
- Corporate Officer — Title(s): \_\_\_\_\_
- Partner —  Limited  General
- Attorney in Fact
- Trustee
- Guardian or Conservator
- Other: \_\_\_\_\_

Signer Is Representing: \_\_\_\_\_

