

File No. 31389

Max P. Schiefelbein,)
)
 to) OIL AND GAS LEASE
)
The Texas Company.)

*(See Book H, Page 117,
Miscellaneous for
Surrender & Quitclaim)*

OIL AND GAS LEASE

THIS LEASE AND AGREEMENT, made and entered this 23rd day of June, 1954, by and between MAX P. SCHIEFELBEIN, a single man hereinafter called "Lessors" (whether one or more), and THE TEXAS COMPANY, a Delaware Corporation hereinafter called "Lessee,"

WITNESSETH: That in consideration of the sum of Ten Dollars (\$10.00) paid by Lessee to Lessors, the receipt of which is hereby acknowledged, and of the covenants hereinafter contained by Lessee to be kept and performed, Lessors do lease, let and demise unto Lessee, for the purposes hereinafter set forth, that certain land in the County of Eureka, State of Nevada, described as follows, to-wit:

Township 27 North Range 51 East, MDB&M

Section 13: the Northeast quarter (NE $\frac{1}{4}$)

Township 27 North Range 52 East, MDB&M

Section 18: Lots 1 & 2; the East half of
the Northwest quarter (E $\frac{1}{2}$ NW $\frac{1}{4}$)

and containing a total of 314.94 acres, more or less.
with the sole and exclusive right to explore for, drill for, produce, extract and take oil, gas and other hydrocarbons (and water for its operations on the leased land) from the leased land during the term hereinafter provided, and the right to construct, erect, maintain, operate, use, repair, replace and remove pipe lines, 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, together with rights of way for passage over, upon and across, and ingress and egress to and from the leased land for any or all of the above-mentioned purposes. Lessors reserve the right to occupy and to lease the same for agricultural, horticultural, logging or grazing purposes, subject to the rights of Lessee hereunder.

TO HAVE AND TO HOLD the leased land for the term of twenty (20) years from and after the date hereof and so long thereafter as oil or gas or other hydrocarbon substances are produced in paying quantities from the leased land.

In consideration of the premises, the parties hereby respectively covenant and agree:

1. On or before ten (10) years after the date hereof (the last day of said period being hereinafter referred to as the "working date"), Lessee shall either commence "drilling operations" on the leased land and thereafter continue its operations with reasonable diligence until oil or gas in paying quantities is found or a depth is reached at which further drilling would in the judgment of Lessee be unprofitable, or quitclaim and surrender this lease as hereinafter provided.
2. If oil or gas is not obtained in paying quantities in the first well drilled on the leased land, Lessee, within six (6) months after its completion or abandonment, shall commence drilling operations for a second well, and shall prosecute the same with reasonable diligence until oil or gas 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; and Lessee shall in like manner continue its operations until oil or gas in paying quantities is found or this lease terminated; provided, however, that nothing in this paragraph contained shall require the commencement of drilling operations for the second or any subsequent well (other than an offset well) before the said working date. If, however, before said working date, there shall be any period of more than six (6) months between the completion or abandonment 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 at the rate hereinafter set forth, in installments, quarterly in advance.
3. The leased land shall be deemed to have been "fully drilled" within the meaning hereof whenever there shall have been drilled thereon a number of wells equal to the number of acres then subject to this lease divided by forty (40), plus one (1) additional well for any remaining major fraction. If oil is found in paying quantities in any well drilled by Lessee on the leased land, Lessee to the extent that it is not prohibited from so doing under applicable laws, rules or regulations, will continue to drill wells for oil as rapidly as one string of tools, working with reasonable diligence, can complete the same, with not more than six (6) months between the completion or abandonment of one and the commencement of operations for the next, until the leased land has been fully drilled. After the leased land has been fully drilled, Lessee may at any time drill further wells if it shall so elect, but it shall not be required so to do. After one or more wells have been drilled on the leased land, if the only production obtainable from such well or wells is gas, and if such gas production is in paying quantities, the leased land shall be considered as gas land and not as oil land until at some later date oil in paying quantities is discovered. While the leased land is considered as gas land, drilling for oil shall not be required, except to comply with the provisions of this lease relative to offset wells. Lessee shall, however, drill further wells for gas if and to the extent that such drilling is requisite for the proper development of said land for gas; but it shall not be required to drill more gas wells than are necessary to supply such part of the market demand for gas from the field as may fairly and reasonably be apportioned to the leased land.
4. If, before the leased land has been fully drilled, a well producing oil in paying quantities (hereinafter called an "outside well") is drilled upon adjacent land not owned or controlled by Lessors within three hundred thirty (330) feet (hereinafter called "offset distance") from a boundary of the leased land, Lessee shall offset such outside well by the commencement of drilling operations at a suitable offset location on the leased land within six (6) months after it is ascertained that the production of oil from such outside well is in paying quantities, except that (a) if a well is being drilled on the leased land, said time shall be extended until six (6) months after the completion or abandonment of the well so drilled, or (b) if there already exists or is being drilled on the leased land a well at a suitable offset location, it shall take the place of the required offset well. A suitable offset location within the meaning hereof shall be one which is within the offset distance from the boundary and not more than twice the offset distance from a line drawn from the outside well to the nearest point in said boundary and extended through the leased land. Offset wells shall be counted in determining when the leased land has been fully drilled.
5. Lessee has paid Lessors' rental in full hereunder for the first twenty-four (24) months of the term hereof. If Lessee has not commenced drilling operations on the leased land or terminated this lease within that time, Lessee commencing with the expiration thereof, shall pay or tender to Lessors annually in advance, as rental the sum of one dollar (\$1.00) per acre for so much of said land as may then still be held under this lease at the

time of payment and shall continue such payments until drilling operations are commenced or this lease terminated.

6. Except as herein otherwise provided, Lessee shall drill each well and operate each completed well in accordance with good oil field practice so long as such well shall produce oil or gas in paying quantities but in conformity with any reasonable conservation or curtailment program affecting the drilling of wells or the production of oil or gas or either thereof from said land to which Lessee may voluntarily subscribe or become a party, or with any conservation or curtailment program which may be imposed by law or by any appropriate governmental agency. After the completion of the first oil well, ~~drilling or producing operations hereunder (except of offset wells when wells offset/are to be offset)~~ may be suspended while the price offered generally to producers in the same vicinity for oil of the quality produced from the leased land is seventy-five cents (75¢) or less per barrel at the well, or when there is no available market for such oil at the well, and in either case for a period of ninety (90) days after the reason for suspension ceases to exist. Gas wells need not be operated when there is no market for gas at the well at a price and under conditions which Lessee believes to be for the best interests of both parties hereto.

7. The term "agreed share" as used herein means one-eighth (1/8th)/

8. Lessee shall pay Lessors as royalty on oil the value of the agreed share of all oil produced and removed from the leased land, after making the customary adjustments for temperature, water and b.s. at the posted available market price at the well for oil of like gravity on the day the oil is so removed, or at Lessors' option, in lieu of such payment Lessee shall deliver the agreed share of said oil, free of cost, into Lessors' tanks on the leased land or into pipe line thereon designated by Lessors. A change from payment in cash to delivery in kind, or vice versa, may not be made oftener than once in any calendar year and then only on sixty (60) days prior written notice to Lessee. If royalty on oil is payable in cash, Lessee may deduct therefrom a proportionate part of the cost of treating unmerchantable oil produced from the leased land to render it merchantable. In the event such oil is treated elsewhere than on the leased land, the Lessors' cash royalty shall also bear a corresponding proportionate part of the cost of transporting the oil to the treating plant. Nothing herein contained shall be construed as obligating Lessee to treat oil. If Lessors shall elect to receive the royalty on oil in kind, it shall be of the same quality as the oil removed from the leased land for Lessee's own account, and if Lessee's own oil shall be treated before such removal, Lessors' oil will be treated therewith before delivery to Lessors, and Lessors, in such event, shall pay a proportionate part of the cost of treatment. No royalty shall be due Lessors for or on account of oil used by Lessee in operations on the leased land or lost through evaporation, leakage, fire or other casualty prior to the removal of the same or prior to delivery to Lessors if royalty shall be delivered in kind.

9. Lessee shall pay Lessors as royalty on natural gas the agreed share of a value which shall be the sum of the following:

a) The net proceeds received by Lessee from the sale of gas produced from wells on the leased land (whether such gas be sold by Lessee in its natural state or as residual dry gas after extracting gasoline therefrom). Gas treated at a gasoline extraction plant not owned or operated by Lessee and for which Lessee receives a royalty from the operator of such plant shall be deemed sold in its natural state for an amount equal to the market value of the royalty received by Lessee. Except as otherwise provided herein, gas used or consumed by Lessee in operations other than under this lease shall be deemed sold for the market value thereof. The value of gas used or consumed in the operation of a gasoline extraction plant (to the extent that it is so used for processing gas from the leased land), or in operations on the leased land, or in repressuring any oil bearing formation from which a well or wells on the leased land is producing, shall not be included;

b) The market value at the extraction plant of all gasoline extracted and saved from natural gas from the leased land as a result of processing such gas at a plant owned or operated by Lessee, less the cost of such processing, which cost for the purposes hereof will be deemed to be sixty percent (60%) of said last-mentioned market value;

c) The market value, at the plant where extracted, of all gasoline received by Lessee as a result of the processing of natural gas from the leased land at a plant not owned or operated by Lessee (if such processing is not on a royalty basis) less the cost to Lessee of such processing.

Nothing herein contained shall obligate Lessee to treat or process natural gas nor shall Lessee be obligated to save, sell or otherwise dispose of natural gas or residual dry gas, as the case may be, unless there is a market therefor at the well or processing plant at a price and under conditions which Lessee believes to be for the best interest of both parties hereto, or to pay royalty on any gas which is neither sold nor used.

10. Settlement shall be made by Lessee on or before the 25th day of each calendar month for all royalties which accrued during the preceding month and Lessee shall furnish Lessors monthly statements showing the computation of royalties. Lessors agree to examine promptly each and all statements and remittances forwarded by Lessee to them hereunder and promptly advise Lessee of any objection thereto.

11. If, after the discovery of oil or gas on the leased land, Lessee, in its operations hereunder, shall use electrical power in lieu of oil or gas produced from the leased land, Lessee may deduct from royalties or other payments accruing to the Lessors the agreed share of the cost of such electricity so used, not, however, in excess of the agreed share of the value of the oil or gas produced from said land which would otherwise have been used as fuel.

12. The rentals and royalties provided for in this lease are based on the whole of the oil and gas rights in the land described above. If Lessors own less than the whole of the oil and gas rights in said land, the rentals and royalties accruing hereunder shall be proportionately reduced. Lessee shall not be deemed to be in default in payment of any royalties or rents hereunder while the title of Lessors is challenged by any third person, or

while any third person appears to have any right, title or interest adverse to Lessors; provided, however, that if such adverse interest affects only a part of the leased land or a part of the interest of Lessors therein, the foregoing provisions shall apply only if Lessee shall pay to Lessors such part of the total rent or royalty as is applicable to the land or interest not affected by such adverse claim.

13. The payments required to be made by Lessee hereunder may be made by its check issued and made payable as hereinafter provided. All persons entitled to participate or share in such payments shall, at the request of Lessee, unite in a written designation of one person, bank or corporation to receive such payments, to the end that Lessee shall not be required to make any payment otherwise than by one check, which check shall be payable to but one payee, such payee to assume the burden and responsibility of making a proper distribution without expense to Lessee among the persons entitled thereto. When such designation is made, said payments may be made by mailing such check to the payee at address designated. Until such designation is made, such checks may be made payable and may be mailed to Max P. Schiefelbein at Palisade, Nevada. A waiver by Lessee of the provisions of this paragraph in the making of any payment or payments shall not be deemed a waiver thereof with respect to subsequent payments. If at any time there be no one person, bank or corporation authorized to receive payments hereunder, the time for making such payments shall be extended until Lessee has been notified of such designation.

14. 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.

15. Lessee shall pay all taxes levied upon or assessed against its improvements, fixtures and personal property on the leased land, including Lessee's oil stored thereon. Taxes levied upon or assessed against the petroleum minerals and petroleum mineral rights (or, if same shall not be separately assessed, such part of the taxes on the leased land as are due to the discovery of oil or gas on the leased land or lands adjacent thereto) shall be paid as follows: The agreed share thereof by all of the persons entitled to share in the royalty hereunder, according to their several interests in said royalty and the remainder thereof by Lessee. Any severance tax or other tax, assessment, or license now or hereafter levied or imposed, measured by the quantity or value of oil, natural gasoline, gas or other hydrocarbon substances produced from the leased land, or any thereof, shall be borne by the parties in the same ratio as taxes on petroleum minerals and petroleum mineral rights. Lessee shall not be liable for any special assessment for local improvements or benefits.

16. Lessee, at its own cost and expense, shall pay for all labor performed and materials furnished in the operations of Lessee hereunder and Lessors shall not be chargeable with, or liable for, any part thereof. Lessee shall protect said leased land from liens of every character arising from its operations. Lessors may post and keep posted on the leased land notices to protect the same from liens.

17. Upon the written request of Lessors, Lessee shall lay all pipe lines which it constructs through cultivated portions of the leased land below plow depth and upon similar request shall fence all sump holes and other excavations to safeguard livestock.

18. If Lessors are the owners of the surface of the leased land, Lessee shall pay the amount of all damage to livestock, crops, fruit or nut trees, timber, fences, ditches, buildings and other improvements caused by Lessee's operations on the leased land which payment shall be made to Lessors or Lessors' tenant, whichever shall sustain such damage. All disputes as to the amount thereof shall be determined by arbitration. If Lessors are not the owners of such surface, Lessee will hold Lessors harmless from all claims and demands arising out of Lessee's operations hereunder which may be asserted by the owner of the surface or by any tenant of such owner.

19. Lessee shall not drill any well on said leased land within one hundred (100) feet of any now existing building thereon without written consent of the owner of such building, nor shall Lessee drill any well upon lands occupied, used or held for railroad purposes.

20. Lessors, at all reasonable times, may inspect the leased land and the work done and in progress thereon, and the production therefrom. Lessors may also examine the books kept by Lessee in relation to the amount and character of the production from the leased land and disposition thereof. Lessee, on written request of Lessors therefor, shall furnish to Lessors copies of logs of all wells drilled by Lessee on the leased land.

21. 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 or otherwise affixed to the land; provided that, in the event of the termination of this lease in its entirety, such removal shall be completed within four (4) months 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 the lease shall be removed from the land as to which this lease is terminated within four (4) months after such partial termination, and the remainder shall be removed within four (4) months after the termination of the 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 practicable, but Lessee shall not be obliged to restore anything for which it may theretofore have made payment by way of damages.

22. Lessee, at its option, may at any time quitclaim and surrender all of the leased land, in which event this lease shall be at an end and Lessee shall be relieved of all obligations thereunder 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 premises. Lessee, at its option, may at any time, or from time to time, quitclaim and surrender any part of the leased lands not desired by it, 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 shall be determined by the acreage retained. Land so quitclaimed shall remain subject to the easements and right of way herein provided for so long as operations are being carried on by Lessee on the retained part of the leased land, and Lessors agree that there shall not be drilled on the quitclaimed land

any oil or gas well which is within three hundred thirty (330) feet of any well retained by Lessee or being drilled by it.

23. Lessee may at any time with respect to a designated part or all of the leased land, (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 which will necessarily be produced therewith. A surrender of oil rights in all of 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.

24. Performance of covenants and conditions imposed upon Lessee hereunder shall be excused while, and to the extent that, Lessee is prevented from complying therewith, in whole or in part, by law, war, riots, strikes; lockouts, action of the elements, accidents, inability to obtain materials in the open market or to obtain transportation therefor, 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.

25. a) If the Lessee shall fail to promptly pay any installment of royalty or rent, and if such default shall continue for a period of fifteen (15) days after written demand therefor, then at the option of Lessors, this lease shall forthwith terminate; provided, however, that if there be a bona fide dispute as to the amount due, and all undisputed amounts are paid, said fifteen (15) day period shall be extended until five (5) days after such dispute is settled by final court decree, arbitration or mutual agreement.

b) In case of default by Lessee with respect to any other condition or covenant hereof and continuance of such default for ninety (90) days after written notice from Lessors to Lessee to perform such condition or covenant, then at the option of Lessors this lease shall forthwith cease and terminate except that if any oil well has theretofore been drilled or is then being drilled and Lessee is not in default in connection therewith, this lease shall nevertheless continue in effect as to an area to be selected by Lessee not exceeding forty (40) acres for each such oil well, and if any gas well has theretofore been drilled or is being drilled and Lessee is not in default in connection therewith, this lease shall remain in effect for the production of gas and for development for gas (but not oil or gas associated with oil) as to an area to be selected by Lessee not exceeding six hundred and forty (640) acres for each such gas well. Lessee shall not, however, be deemed to be in default while work is in progress in good faith which when completed will constitute compliance with such condition or covenant. A termination of this lease as to a part only of the leased land or as to a part only of Lessee's rights shall not affect such rights of way and easements as may be necessary in Lessee's operations on the part of the leased land as to which no such termination shall have occurred.

26. Should Lessors 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 Lessors at the date hereof. Lessors agree 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 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 royalty or rentals accruing hereunder.

27. 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 the Lessee's obligations under this lease for, and only to the extent of, his 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, 2, and 3 hereof, either by the Lessee or any assignee hereunder shall protect the lease as a whole.

28. Any notice to be given by either party to the other hereunder may be delivered in person or by registered mail, postage prepaid, addressed to the party for whom intended as follows: to Lessors at Palisade, Nevada to Lessee at 929 South Broadway, Los Angeles, California, care of Lands and Leases Office. Either party hereto 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 is given by registered mail, usual time for transmission/mail shall be computed and at the end of such time service of notice will be considered made.

29. 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 premises with respect to the spacing of, drilling for or producing of wells, or other operations for oil, or gas, and if there be any conflict between the same and the 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.

30. The words "drilling operations" as used in this lease include, in addition to actual drilling, any work undertaken or commenced in good faith if followed diligently and in due course by the construction of a derrick or other necessary structures for the drilling of an oil or gas well, and by the actual operations of drilling in the ground.

31. If twenty (20) years from the date hereof, oil or gas is still being produced by Lessee, and if thereafter such production shall cease, then and as often as such event shall occur, the term of this lease shall continue for sixty (60) days from the date of last production and if during that time Lessee resumes operations for the drilling of a well or

or the restoration of production the term shall continue during the prosecution of such operations, and, if production results therefrom, as long as production continues.

32. On the expiration or sooner termination of this lease Lessee shall quietly and peaceably surrender possession to Lessors and deliver to Lessors, or file for record, a quitclaim deed.

33. If more than one person is named as Lessors herein and one or more of them fails to execute this lease, it shall, nevertheless (if accepted by Lessee) become effective as a lease from such of said named Lessors as may have executed the same.

34. This lease may be executed in any number of counterparts and all such counterparts shall be deemed to constitute a single lease and the execution of one counterpart by any Lessor shall have the same force and effect as if he had signed all the other counterparts.

35. This lease and all its terms, conditions and stipulations shall extend to and be binding upon all the heirs, successors and assigns of said Lessors and Lessee.

Paragraphs 36 & 37 are added to and made a part of this lease.

36. Lessee agrees that as to any well to be abandoned by it on the leased land, it will leave the surface casing therein in conformity with the requirements of the Department of Natural Resources, and that it will cap the surface casing at the surface with a steel plate in order that Lessor may at some subsequent date reenter said hole for the purpose of endeavoring to develop water therefrom.

IN WITNESS WHEREOF, said parties have caused this lease to be duly executed as of the date first hereinabove written.

Max P. Schiefelbein

LESSORS

THE TEXAS COMPANY

By G. R. Couper

Its Attorney in Fact

(Corporate Seal)

Attest

J. W. Davis

Assistant Secretary
LESSEE

36. Lessee is hereby given the right at its sole option to combine or pool this lease and the leased land, or any portion thereof, with any other land, lease, or leases, or parts thereof, regardless of ownership thereof, either adjoining the leased land or other lands which may be included in and form part of the same operating unit so as to create by such combining or pooling one or more operating units for the production of oil, gas or other hydrocarbon substances. Such right may be exercised from time to time at any time prior to thirty (30) days after completion of a well for the production of oil or gas on the particular acre to be pooled.

No operating unit so created shall exceed six hundred and forty acres in area. Such an operating unit shall be created hereunder and shall become effective upon the execution by Lessee in writing of a "Declaration of Pooling" which shall identify and describe the pooled acreage. Written notice of such declaration shall be given to Lessor. In the event production of oil, gas or other hydrocarbon substances is obtained from any such operating unit or units created hereunder there shall be allocated to the leased land included in such operating unit (regardless of whether or not such production is from any part of the leased land) that portion of the production from such unit that the number of acres validly leased hereby and included in such operating unit bears to the total number of acres included in any such unit. Royalties and payments (other than delay rentals under paragraph 5 hereof) herein provided for shall be calculated on the portion of such production so allocated to the leased land, and shall be paid in the same manner and subject to the same terms and conditions as other royalties and payments herein provided for. Such portion of said royalties and payments shall be in lieu of any other royalties and payments which would accrue to Lessor hereunder on account of production of oil, gas or other hydrocarbon substances from any part or parts of the leased land which are included in any such operating unit created pursuant hereto. The production necessary to prolong the term of this lease may be from any part of the operating unit. In lieu of the taxes provided to be paid by Lessor under paragraph 15 hereof (other than taxes on the land as such) Lessor shall bear and pay one-eighth (1/8th) of that part of the taxes on such operating unit and the production therefrom as is in the same ratio to all such taxes as the production allocated to Lessor's land in such operating unit is to the total production from such operating unit.

Upon the pooling of less than all of the leased land, as above provided, this lease shall be severed and shall be considered as separate and distinct leases on separately pooled acreage and on unpooled acreage, as the case may be, and the term of this lease and all the rights and obligations of Lessee under this lease shall apply separately to separately pooled acreage and to unpooled acreage under this lease.

Any act or obligation required by this lease to be performed or fulfilled by Lessee with respect to the acreage included in any such operating unit shall be deemed fully performed, fulfilled and effective by the performance or fulfillment of such act or obligation upon or with respect to any part of such operating unit. Any such operating unit shall be deemed to be fully drilled whenever there has been drilled thereon a number of wells equal to the number of acres then subject to such operating unit, divided by forty (40), plus one (1) additional well for any remaining major fraction. After one or more wells have been drilled on an operating unit, if the only production from such well or wells is gas, and if such gas production is in paying quantities, such operating unit shall be considered as gas land and not as oil land until at some later date oil in paying quantities is discovered. While such operating unit is considered as gas land, drilling for oil shall not be required except to comply with offset obligations. Lessee shall, however, drill

further wells for gas if and to the extent that such drilling is requisite for the proper development of the operating unit for gas, but it shall not be required to drill more gas wells than are necessary to supply such part of the market demand for gas from the field as may fairly and reasonably be apportioned to such operating unit. Lessee shall not be required to drill any offset well on that part of the leased land pooled into an operating unit, to offset any other well drilled on the acreage pooled into such unit. Any part of the leased land not pooled into an operating unit shall be and remain subject to the terms and conditions of this lease unaffected by the pooling of any other part or parts of the leased land or by operations on any such operating unit.

Lessee may at any time quitclaim to the persons entitled thereto all or any part of the land in an operating unit and thereupon Lessee shall be released from all further obligations and duties as to the area of such operating unit so quitclaimed and all drilling requirements thereon shall be reduced pro rata, and no further quitclaim shall be required among owners of land in the operating unit to terminate lease(s) on quitclaimed land in so far as the interest of such owners in such operating unit is concerned; provided, however, that the initial portion of production from an operating unit so allocated to the leased land shall remain unchanged notwithstanding the surrender by Lessee of less than all of the land pooled in such unit, except:

(a) that after the surrender by Lessee of less than all of the land included in an operating unit, if the owner of such surrendered land shall lease the same, or any part thereof, for oil or gas production or shall commence or cause to be commenced the drilling of a well for oil or gas on such surrendered land, or any part thereof, thereupon and forever after actual notice to Lessee of any such leasing or drilling, such surrendered land shall cease to participate in production from that part of such operating unit retained by Lessee;

(b) that land lost or quitclaimed by Lessee because of loss or failure of title for any cause beyond Lessee's control shall be removed from the operating unit and shall not thereafter participate in production;

(c) whenever quitclaimed land, or land on which title is lost, within an operating unit shall cease to participate in production as above provided, production from that portion of the operating unit retained by Lessee shall thereafter be allocated, on the basis hereinabove provided, only to the remaining land in the operating unit entitled to participate in production.

Upon the surrender or other termination of all leases included in an operating unit, the pooling of the lands in such unit shall terminate and thenceforth no owner of any part of the land in such unit shall, by reason of said pooling, have any right, title, or interest in any other part of the land in such unit.

Lessee shall not be liable to any party for reduction of the acreage content of any operating unit resulting from loss of title for any cause beyond its control and in such event Lessee shall have the right to dissolve any such unit. Lessee shall not be obligated to make any retroactive apportionment of royalties or payments in the event of any reduction in participation in production or in acreage content of an operating unit as above provided. In case any action is brought at law or in equity by persons claiming title to any land in an operating unit in hostility to the Lessors from whom Lessee holds a lease on such land, then during the pendency of said action until the final decision thereof, Lessee may discontinue operations upon the land in controversy, or if it operates wells thereon, may impound royalties accruing from production thereon until the ownership thereof is finally determined.

STATE OF CALIFORNIA)
 : SS
COUNTY OF LOS ANGELES)

ON THIS 20th day of July, A. D. 1954, personally appeared before me, CHARLOTTE M. GALLAND, a notary public in and for Los Angeles County, G. R. COUPER, known to me to be the person whose name is subscribed to the within instrument as the attorney-in-fact of The Texas Company and acknowledged to me that he subscribed the name of said corporation thereto, as principal, and his own name as attorney-in-fact, freely and voluntarily and for the uses and purposes therein mentioned.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the County of Los Angeles the day and year in this certificate first above written.

(Notarial Seal)

Charlotte M. Galland

Notary Public in and for the
County of Los Angeles,
State of California.

My commission expires: July 25, 1956

STATE OF NEVADA)
 : SS
COUNTY OF ELKO)

ON THIS 24th day of JUNE, A.D. 1954, personally appeared before me, D. M. JEWELL, a notary public in and for ELKO County, NEVADA, MAX P. SCHIEFELBEIN, a single man, known to me to be the person described in and who executed the foregoing instrument, who acknowledged to me that he executed the same freely and voluntarily and for the uses and purposes therein mentioned.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the County of ELKO, the day and year in this certificate first above written.

(Notarial Seal)

D. M. Jewell

Notary Public in and for the
County of ELKO,
State of NEVADA,

My commission expires: June 18, 1955.

Recorded at the Request of Washoe Title Insurance Co. July 30 A.D. 1954 At 46 minutes past 4 P.M.

R. W. Gibson--Recorder.