

Laurence R. Phillips and )  
Hazel A. Phillips, his wife )  
 )  
to )  
 )  
Richfield Oil Corporation )

AGREEMENT

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THIS AGREEMENT, made and entered into this 6th day of MAY, 1960, between LAURENCE R. PHILLIPS AND HAZEL A. PHILLIPS, his wife, whose address is 632 West Hermosa Drive, San Gabriel, California, hereinafter referred to as "First Party", whether one or more, and RICHFIELD OIL CORPORATION, a Delaware corporation, whose address is 555 South Flower Street, Los Angeles 17, California, hereinafter referred to as "Second Party".

W I T N E S S E T H:

THAT, WHEREAS, First Party is the owner of an offer to lease, or is the owner of an oil and gas lease, as the case may be, pursuant to the Act of Congress approved February 25, 1920 (41 Stat. 437), as amended, upon land belonging to the United States of America bearing Serial Number NEVADA 019274, said offer to lease being hereinafter referred to as "said offer", and any oil and gas lease hereinabove described, and any oil and gas lease issued pursuant to said offer, and any such oil and gas lease the primary term of which is extended as provided for in said Act of Congress, being hereinafter referred to as "said Lease", embracing the following described land situated in the County of EUREKA, State of NEVADA, to wit:

T. 22 N., R. 54 E., M.D.M., Nevada  
 Sec. 15: All  
 Containing 640.00 acres, more or less,

hereinafter referred to as "said lands";

NOW, THEREFORE, in consideration of One Dollar (\$1.00) and other good and valuable considerations paid by Second Party to First Party, receipt of which is hereby acknowledged, and the mutual covenants and agreements herein contained, it is hereby agreed between the parties hereto as follows:

1. First Party hereby grants unto Second Party the exclusive right during the life of this agreement to make such geological or geophysical explorations of said lands as Second Party may desire to make, and as may be authorized under the terms of said lease.

2. First Party does hereby give and grant unto Second Party, his successors and assigns, the sole and exclusive right, privilege and option of purchasing and acquiring said lease, in so far as it covers said lands, by assignment. As used in this agreement "said lease" includes any lease above referred to in its extended term. Within ten (10) days after notice of exercise of said option First Party agrees to execute and deliver to Second Party, or his order, a good and sufficient assignment of said lease covering the lands as to which said option is exercised; provided that if said lease has not been issued at the time of the exercise of said option, First Party agrees to soexecute and deliver said assignment within ten (10) days after said lease has been issued. Such assignment shall contain the following provisions:

(a) shall reserve unto First Party the same overriding royalty as the overriding royalty described in paragraph 19 hereof, subject to all of the provisions of subparagraphs (a), (b), (c), (d), (e), (f) and (g) of said paragraph 19;

(b) that Second Party shall have the right at any time to assign all or any part of his rights under such assignment;

(c) that should Second Party desire to surrender to the United States all or any part of said lease as to all or any legal subdivision of said lands covered by such assignment, Second Party at least thirty (30) days prior to the time for the payment of the next annual rental due under the terms of said lease, shall mail written notice by registered mail or certified mail to Laurence R. Phillips

whose address is 632 West Hermosa Drive, San Gabriel, California, hereinafter referred to as "Lessee", offering to reassign to Lessee that portion of said land which Second Party desires to relinquish. If within thirty (30) days after the mailing of such notice, Second Party shall have received a notice in writing from Lessee that Lessee desires a reassignment of such lands, and shall also have received from Lessee an application from Lessee to the Bureau of Land Management for approval of such reassignment, containing a proper showing of Lessee's qualifications to receive such reassignment, together with any required bond, Second Party shall reassign such lands to Lessee and file such reassignment, application and bond for approval of said Bureau. Should Second Party not have received from Lessee the notice that Lessee desires a reassignment, and said application and said bond, within said time, or should the Secretary of the Interior refuse for any reason to consent to any such reassignment to Lessee, Second Party shall thereupon immediately have the right, regardless of the death or incapacity of Lessee, to surrender and relinquish said lease to the United States as to the lands specified in such offer, and shall be under no other or further obligation to First Party.

(d) the same warranty set forth in paragraph 9 hereof.

3. First Party does hereby give and grant unto Second Party, his successors and assigns, the further sole and exclusive right, privilege and option of purchasing and acquiring the sole and exclusive right of possession of said lands, or any part thereof, together with the full right and lawful authority to enter thereon for the purpose of exploring, drilling, mining, developing and operating said lands for oil and gas purposes, and producing, treating, handling and marketing all and any such minerals produced therefrom from the date of exercise of said option and thereafter for the full term of said lease, in so far as it covers said lands.

4. Upon the exercise of the option contained in paragraph 3 hereof, this agreement shall be considered and construed as, and shall automatically become, an operating agreement between First Party and Second Party; provided that if said lease has not been issued at the time of the exercise of the option contained in paragraph 3 hereof, during the period of time between said exercise of option and the issuance of said lease, this agreement shall be considered as an agreement to grant the operating rights referred to in paragraph 3 hereof, unto Second Party upon the issuance of said lease, and upon the issuance of said lease this agreement shall be considered and construed as, and shall automatically become, an operating agreement between First Party and Second Party. Any such operating agreement shall transfer and convey from First Party to Second Party, and First Party upon the exercise by Second Party of the option contained in paragraph 3 hereof, and upon the issuance of said lease, does hereby transfer and convey unto Second Party all of the rights, privileges, benefits, interests and possession specifically set forth under paragraph 3 hereof in and to that portion of said lands as to which such option is exercised.

5. Upon the exercise of either of the options provided for in paragraphs 2 and/or 3 hereof Second Party shall pay to First Party the sum of Ten Cents (10¢) per acre for the lands as to which said option or options are exercised, and thereafter no further purchase price or payments hereunder, excepting the overriding royalties herein provided for, shall accrue to or be due or payable to First Party from Second Party for any lands as to which an option has been exercised. The considerations above referred to, and the overriding royalties herein provided for, and the other agreements herein contained constitute the full consideration for this agreement and the assignments or operating agreements herein provided for.

6. The options contained in paragraphs 2 and/or 3 hereinabove may be exercised by Second Party at any time, and from time to time, on or before three (3) years from the date

of this agreement, or, if said lease has not been issued at the date of this agreement, said option period and said options shall be extended to and may be exercised by Second Party at any time, and from time to time, on or before three (3) years from and after the issuance of the oil and gas lease issued pursuant to said offer, and, in the event all or any part of said lands has been included in a cooperative or unit plan (as defined in #192.20 of Title 43 of the Code of Federal Regulations), duly executed by the parties thereto and submitted to the Secretary of the Interior for final approval prior to the expiration of said three (3) year option period and said options shall be extended to and may be exercised by Second Party at any time, and from time to time, on or before thirty (30) days after the date of final approval or disapproval by the Secretary of the Interior of that cooperative or unit plan. Said options shall be exercised by Second Party giving notice in writing to First Party of his intention to acquire either an assignment of said lease as to all or any part of said lands, or an operating agreement covering said lease as to all or any part of said lands. Said notice shall describe the lands as to which the option is exercised and shall be accompanied by Second Party's check for the amount of the payment to be made to First Party or less than all of First Party's right, title or interest in said offer or in said lease, or in the production under said lease, or in the overriding royalty hereinafter referred to, and notwithstanding any actual or constructive notice thereof to Second Party, the notice of exercise of option to First Party, herein referred to and the payment to be made to First Party upon such notice of exercise of option herein referred to shall be given and paid to First Party. Second Party shall not be required to give such notice of exercise of option or to make payment of any portion of said moneys payable upon such notice of exercise of option herein referred to shall be given and paid to First Party. Second Party shall not be required to give such notice of exercise of option or to make payment of any portion of said moneys payable upon such notice of exercise of option to any person to whom such partial assignment or conveyance has been made, not to such person's successors or assigns. Notwithstanding the death or incapacity of First Party, or any one of the First Party, such notice of exercise of option shall be effective for all purposes when given to First Party as provided in paragraph 7 hereof, and such payment to First Party upon such notice of exercise of option shall be made by check payable to First Party and shall accompany any such notice. In the event Second Party does not elect to acquire either an assignment or an operating agreement covering all of said lands when giving said notice of exercise of option, then and in that event said options shall continue in full force and effect as to that portion of said lands not included in said notice of exercise of option for and during the full term of the option period as above set forth. After the first exercise of option, as herein provided for, Second Party may, at any time and from time to time, and as often as he may desire to do so, during said full option term, elect to acquire an assignment or an operating agreement covering said lease as to all or any part of said lands not previously acquired as herein provided; provided that each additional exercise of option to acquire either an assignment or an operating agreement as to any additional portion of said lands shall be exercised in the manner and form as herein provided for the first exercise of option.

7. For the purpose of serving any notice of exercise of any option provided for herein, or any other notice hereunder, or delivering any quitclaim hereunder, the same shall be deemed to have been given or delivered and shall be completely effective for all purposes when delivered in person to First Party or Second Party, as the case may be, or deposited in the United States post office as registered mail or certified mail, or filed with any telegraph company as a telegram with all charges thereon fully prepaid, notices or quitclaims to First Party and notices to Second Party being addressed, respectively, to First Party or Second Party, as the case may be, at their respective addresses hereinabove set forth. Either party may, by written notice to the other, change its address.

8. First Party agrees to diligently prosecute said offer and during the term of this agreement as an option or as an operating agreement, not to surrender or relinquish to the United States said offer or said lease, in so far as it covers lands subject to this agreement, without the consent in writing of Second Party first had and obtained. First Party will not commit any act which will furnish cause for forfeiture or cancellation of said offer or said lease, in so far as it covers lands subject to this agreement, or lands surrendered to First Party by Second Party hereunder, or in lieu of performing the obligations of said lease as to lands not subject to this agreement First Party will cause said lease to be partially surrendered to the United States and/or cancelled as to the lands not subject to this agreement on which First Party does not so perform the obligations of said lease. Immediately upon receipt of any notice or communication pertaining to said offer or said lease from the United States government First Party will transmit such notice or communication, or a copy thereof, to Second Party.

9. First Party represents to and agrees with Second Party that First Party has not heretofore sold, assigned, encumbered or conveyed said lease or said offer in so far as it covers said lands, or any right, title or interest therein, and that said lease as to said lands is free and clear of all liens, charges and encumbrances, and that First Party has full power, right and authority to execute this agreement, except NONE. If there is any outstanding overriding royalty, oil payment or charge on said lease, as to the subject lands, or the production therefrom or allocated thereto, not hereinabove in this paragraph set forth, then Second Party shall deduct from the overriding royalties accruing to First Party hereunder before payment thereof the amount of any such outstanding overriding royalty, oil payment or charge.

10. At all times during the life of this agreement Second Party agrees that he will pay all rentals, except any rentals prepaid by First Party on filing said offer as they accrue to the United States under the terms of said lease, in so far as it covers that portion of said lands subject to this agreement, and all premiums on bonds required by the Department of the Interior as to any and all of said lands subject to the provisions hereof; provided that Second Party may at any time not less than thirty (30) days prior to any rental due date under said lease, terminate this agreement as to any part of said lands as to which an option under paragraphs 2 or 3 hereof has not been exercised, by giving First Party written notice of such termination:

11. If the primary five (5) year term of said lease will expire during the life of this agreement First Party shall make timely application for an extension thereof in so far as the portion of said lands then subject to this agreement is concerned, and use First Party's best efforts to have such extension issued to First Party. Second Party shall pay the full cost and expense of securing such extension in so far as the portion of said lands then subject to this agreement is concerned, and this agreement is concerned, and this agreement shall continue in full force and effect with respect thereto.

12. First Party does hereby make, constitute and appoint Second Party as First Party's attorney in fact for First Party, in First Party's name, place and stead to take any action which Second Party may deem advisable in order to assure the issuance of said lease pursuant to said offer or the issuance of any extension of said lease, with power to protect and maintain the same in good standing, and at any time to commit said lease and said lands, or any part thereof, to any one or more cooperative or unit plans or other agreement or agreements hereinafter referred to as a "unit agreement", acceptable to Second Party and the Secretary of the Interior, pursuant to the hereinbefore mentioned Act of Congress, and to execute said unit agreement on behalf of First Party, including the right from time to time to modify, change or terminate any such unit agreement, subject to the approval of said unit agreement by the Secretary of the Interior, and to execute all instruments and to do all things necessary to make said offer or said lease and one or more such unit agreements effective, as fully as First Party could or might otherwise do and perform in First Party's individual capacity if personally present, with full power of substitution and revocation, and First Party hereby expressly ratifies and approves all acts and things done and performed by Second Party, or Second Party's substitute, with respect to the matters and things in this paragraph set forth. The powers and rights granted and authorized by this paragraph being coupled with an interest shall be irrevocable during the life of this agreement.

13. Nothing herein contained shall be construed as being in any manner in derogation of any of the terms, conditions or provisions of the Act of Congress under and by which the lease hereinabove referred to is applied for and may be hereafter issued, or has been issued, as the case may be, or of any regulation of the Department of the Interior of the United States lawfully promulgated thereunder; but to the contrary, this agreement and each and every part thereof shall in all particulars be deemed amenable to reformation to eliminate or modify any portions thereof found to be in contravention of the provisions of said Act or such regulations or against public policy, and shall remain and be in full force and effect as to all provisions not so eliminated or modified.

14. Second Party is hereby given the right to at any time assign all or any part of his rights, title, interests and privileges under this agreement.

15. As used in this agreement the masculine gender includes the feminine and neuter and the singular includes the plural.

16. All of the terms, covenants and provisions of this agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, devisees, administrators, executors, successors and assigns.

17. First Party agrees to execute from time to time such other or further instruments as may be requested or as may be deemed proper and necessary by Second Party to make effective in Second Party the aforesaid rights and powers, including said power of attorney, and upon the exercise of any option herein contained, to vest in Second Party the full title to said lease or the full and complete operating rights herein provided for. Said options and said power of attorney shall not be exercised by Second Party later than is permitted by any applicable rule against perpetuities after the death of all persons herein referred to as "First Party".

18. The provisions of the following paragraphs shall apply only to those portions of said lands as to which the option contained in paragraph 3 hereof is exercised, herein referred to as the "subject lands". In the event Second Party elects to exercise said paragraph 3 option the following additional paragraphs shall thereupon automatically become effective and operative as to the subjectlands.

19. As to the subject lands First Party hereby reserves an overriding royalty of TWO per cent (2%) of the market value on the subject lands, or if sold by Second Party, of the proceeds from the sale, at the well or wells on the subject lands, of all oil, gas, casinghead gas and other minerals produced, saved and sold or removed from the subject lands by Second Party under the provisions of said lease or allocated to the subject lands under any unit agreement or pooling agreement approved by the Secretary of the Interior while said lease is in effect. Said overriding royalty shall be subject to each and all of the following provisions:

(a) If the subject lands, or any part thereof, are committed to a unit agreement or pooling agreement, Second Party shall take into consideration any and all production allocated to the different portions of the lands covered by any such unit agreement or pooling agreement, as provided therein, without regard to the lands from which said production is actually obtained, and the production so allocated to all or any part of the subject lands committed to such unit agreement or pooling agreement shall, for the purpose of calculating the overriding royalty payments to be made, as herein reserved, control and be binding and conclusive upon the parties hereto, and the overriding royalty payments to be made, as hereinabove provided, subject to the deductions herein provided for, shall be based and paid only on such production as is so allocated to the subject lands.

(b) Said overriding royalty shall be computed in the same manner and upon the same basis, except as to values, and be paid at the same time as the United States' royalty under said lease and shall be subject to all of the charges and deductions proportionately to which the United States' royalty is subject under the provisions of said lease and under the Department of the Interior Oil and Gas Operating Regulations and under any unit agreement or pooling agreement to which the subject lands, or any part thereof, may be committed, and shall be subject to the other deductions herein provided for. Said overriding royalty shall be payable in cash and not in kind. Said overriding royalty shall constitute First Party's only share or interest in any production of oil, gas, casinghead gas and other mineral produced from the subject lands or allocated to the subject lands under the provisions of such unit agreement or pooling agreement.

(c) Second Party shall not be required to store or sell any natural gas produced from or allocated to the subject lands or any residue dry gas manufactured therefrom, and shall not be required to pay overriding royalty except on such portion thereof actually sold by Second Party or utilized by Second Party in a manner other than that herein made exempt from the payment of overriding royalty. No overriding royalty shall be paid on gas used on the subject lands or on lands unitized or pooled therewith for recycling operations or repressuring any oil-bearing formations from which production is being ob-

tained by any well on the subject lands or on such unitized or pooled lands.

(d) Second Party may deduct and retain from the overriding royalty reserved hereunder First Party's royalty percentage of all taxes of whatsoever nature on or based upon or on account of the oil, gas, casinghead gas and other minerals in the subject lands or produced therefrom or allocated thereto under such unit agreement or pooling agreement, and/or the production, severance, storing, transporting and/or treating thereof.

(e) No obligation shall arise herefrom from Second Party to First Party to develop the subject lands or lands unitized or pooled therewith or to produce oil, gas, casinghead gas or other minerals therefrom, or to continue production therefrom, and no such obligation shall be implied. The reserved overriding royalty shall be paid only by the party producing said substances and only if, as and when such substances are produced and saved under said lease and sold or removed from the subject lands or allocated to the subject lands under any such unit agreement or pooling agreement. As between First Party and Second Party, Second Party shall have full and complete control over all operations and production on the subject lands, and First Party does hereby make, constitute and appoint Second Party as First Party's attorney in fact for First Party, in First Party's name, place and stead to execute and file with the Secretary of the Interior any of the following: applications to modify, suspend or reduce any rental, royalty, drilling, producing or well-spacing provisions of said lease or any unit agreement or pooling agreement covering the subject lands, or to modify or suspend any order, rule or regulation of the Department of the Interior relating thereto, or for any other relief which Second Party may desire in the operation of the subject lands; applications for and agreements to pool said subject lands with other lands under communitization or drilling agreements providing for an apportionment of production or royalties among the separate tracts of land comprising a drilling or spacing unit; agreements, when approved by the Secretary of the Interior, providing for secondary recovery operations, through the use of gas for repressuring, or water drive, or other methods, embracing the subject lands alone, or in conjunction with other lands; a statement and notice of election to have said lease, in so far as it covers the subject lands, governed by the applicable provisions of the amendatory Act of Congress approved August 8 1946 (Public Law 696, 79th Congress, Ch. 916); pleadings necessary, desired or required in any proceeding with respect to any matter or thing relating to said lease in so far as it covers the subject lands pending in court or before the Department of the Interior or any agency or representative thereof, including the execution and filing of releases and surrenders in this agreement provided for, as to any part or parts of the subject lands, and to make appearances in First Party's name in connection therewith, and to generally execute all instruments and do and perform all acts with respect to the foregoing rights and powers and bind First Party thereunder as fully as First Party could or might otherwise do and perform in First Party's individual capacity if personally present, with full power of substitution and revocation, and First Party hereby expressly ratifies and approves all acts and things done and performed by Second Party, or Second Party's substitute, with respect to the matters and things in this paragraph set forth. The powers and rights granted and authorized by this paragraph being coupled with an interest shall be irrevocable during the life of this agreement. First Party hereby authorizes Second Party to do and perform in Second Party's name all acts with respect to the matters, things, rights and powers in this paragraph set forth which Second Party may desire to do,

(f) Said overriding royalty shall be paid by mailing or delivering a check therefor to First Party at the address herein provided. Second Party shall in no event be required to issue more than one check monthly in payment of said overriding royalty, it being hereby agreed that in the event the interest of First Party in said lease in so far as it covers the subject lands, or in the overriding royalty herein referred to, shall be transferred, in whole or in part, or in the event said lease, or any interest therein, in so far as it covers the subject lands, shall now or hereafter be owned in severalty or in separate tracts, Second Party may elect nevertheless, to develop, operate and produce the subject lands as one lease and one tract and treat and pay all royalties accruing hereunder as an entirety and, at Second Party's election, monthly payments of overriding royalty hereunder may be made by not more than one check monthly to all the owners of such interest jointly, or Second Party may withhold payment thereof unless and until furnished with an instrument executed by all owners of said overriding royalty, designating a collecting agent to receive payment of said overriding royalty in its entirety and to give acquittance therefor. Such collecting agent or any successor is hereby authorized to receipt for all such payments or tenders. Such joint payment, or such payment or tender to such collecting agent, shall relieve Second Party from any responsibility for the proper distribution of said overriding royalty to the owners thereof. First Party and any such transferee from First Party hereby agree to distribute such royalty amongst themselves or properly instruct such collecting agent as to the proper distribution of such royalty. Notwithstanding actual or constructive knowledge or notice thereof, no change in ownership of any interest in said overriding royalty shall be binding upon Second Party until a recordable instrument, or a certified copy thereof, evidencing such change is furnished to Second Party, and no such change in ownership shall be effective as to Second Party until the first day of the month next succeeding the furnishing to Second Party of such instruments, and no such change in ownership shall require Second Party to develop or operate or produce any portion of the subject lands as a separate tract, or alter, increase or enlarge any of Second Party's obligations under this agreement, but Second Party may continue to develop, operate and produce the subject lands, as one tract and pay and settle royalties as an entirety on a monthly basis.

(g) All oil containing more than 3% of water and other foreign substances at Second Party's option maybe dehydrated and Second Party shall deduct from said overriding royalty the overriding royalty share of the cost of dehydrating such oil. If such oil is not treated on the subject land then said overriding royalty shall also bear a corresponding proportionate part of the cost of transporting the oil to the treating plant. No correction for gravity shall be made for the water and other foreign substance content when said content does not exceed 3%. Nothing herein contained, however, shall obligate Second Party to treat oil produced from the subject land.

20. All oil, gas, casinghead gas and other minerals produced and saved from the subject lands or allocated thereto in accordance with any said unit agreement or pooling agreement, or the proceeds thereof, remaining after paying the royalties reserved to the United States under said lease and to First Party hereunder, shall be retained by and belong to Second Party and shall constitute Second Party's full compensation for its operations hereunder.

