

unless Lessee shall on or before the expiration of five (5) years from date hereof commence operations for the drilling of a well for oil or gas on the leased premises, and prosecute the drilling thereof with due diligence and dispatch until a depth of at least - 6000- feet has been reached, unless oil or gas is found in paying quantities at a lesser depth. Lessee may at any time before completion abandon said or any subsequent well and this lease shall continue in full force and effect if a new well be commenced on or before ninety (90) days from date of abandonment of said first or any subsequent well so abandoned and thereafter be drilled diligently as herein provided. If at any time prior to the discovery of oil or gas Lessee shall drill a dry hole or holes, to the depth specified above, this lease shall continue in full force and effect if operations for the drilling of a new well be commenced within six (6) months from the date of the completion and abandonment of any such dry hole, and thereafter be drilled diligently by Lessee.

6. Should oil or gas be produced in paying quantities in any of the wells herein provided for, Lessee agrees to commence operations for the drilling of another well within ninety (90) days from completion thereof, and to continuously operate at least one (1) string of tools, allowing ninety (90) days between the completion of one well and the commencement of the next succeeding well until it shall have drilled to completion the equivalent of one well for each full twenty (20) acres and for the remaining major fraction thereof, and which shall in all events be the total number of wells required to be drilled under the terms of this lease. Nothing herein contained shall be construed to limit the number of wells which Lessee may drill, should it so elect, in excess of the number hereinabove specified. The term "completed well" is defined to mean a well upon which Lessee has ceased drilling or testing operations and--(a) has reached the depth provided in Paragraph No. 5 hereof, or--(b) has been put on production and is producing oil, gas or other hydrocarbon substances in paying quantities.

7. Should a well be completed on adjoining property and within three hundred (300) feet of any boundary line of the leased premises and produce oil in paying quantities, then within ninety (90) days after said well is put on production, if said well still be a producer in paying quantities, Lessee shall commence drilling operations on an offset well, unless a well has already been drilled or is drilling which is in effect an offset well as hereinafter defined, and drill the same diligently to the strata from which oil is being produced in the well so to be offset. The term "offset well" shall be construed to mean a well drilled at a distance not greater than three hundred (300) feet from the boundary line between the herein leased premises and the land containing the well to be offset and at a distance not to exceed three hundred (300) feet from either side of a line drawn from the well so to be offset through the nearest point in said boundary line.

8. If production ceases from any cause after the total well requirements have been complied with, Lessee may commence operations for deepening an existing well or wells within ninety (90) days from cessation of production or commence operations for drilling a new well within ninety (90) days from cessation of production or within ninety (90) days from cessation of deepening operations, in either of which events this lease shall remain in full force and effect during the time Lessee diligently continues either of such operations and, if production results therefrom, as long thereafter as production continues in paying quantities. Notwithstanding anything herein contained to the contrary, Lessee may at any time take any producing well off production for the purpose of deepening the same in the sand in which it was completed or to a deeper sand, or for the purpose of re-drilling or cleaning the same, and Lessee may in like manner deepen, re-drill, clean or perform any other operation deemed by it necessary or proper for the purpose of restoring production in any well in which production has ceased.

9. Lessee agrees that no well shall be drilled nearer than one hundred fifty (150) feet of any dwelling house, now on said premises, without the written consent of the H.E.E. Lessor. When requested by Lessor, Lessee shall bury its pipe lines below plow depth.

10. Lessee shall not be required to drill or operate said premises, except offset wells when wells offset are being operated, while the price of oil produced shall be seventy-five cents (75c) or less per barrel at the well. Notwithstanding anything to the contrary contained in this lease, it is expressly agreed that the performance of the obligations imposed upon Lessee may be suspended during the time Lessee's compliance is prevented by the elements, accidents, strikes, lockouts, riots, delays in transportation, inability to secure materials in the open market or interference by State or Federal action, or other causes beyond the control of Lessee.

11. Lessee shall carry on all operations in a careful, workmanlike manner and in accordance with the laws of the State of California. Lessee shall keep full records of its operations and of the production and sales of products from said property, and such records and the operations on the property shall be at all reasonable times open to the inspection of Lessor. If requested by Lessor, Lessee shall furnish to Lessor a copy of the logs of all wells drilled on said property.

12. Lessor shall have the right to use the surface of said land for agricultural and grazing purposes but only to such an extent as will not interfere with Lessee's operations hereunder. Lessee agrees to conduct its operations so as to interfere as little with the use of the land for agricultural or grazing purposes as is consistent with its operations hereunder. When required by Lessor in writing, Lessee shall fence sump holes or other openings to safeguard live stock on said land.

13. Lessee shall pay the surface owner or surface tenant for all damages caused by its operations hereunder to live stock, crops, trees, fences, existing pipe lines, canals, buildings and other improvements. In event the parties hereto are unable to agree on the amount of such damage then the same shall be left to arbitration.

14. Lessee shall pay all taxes on its personal property and improvements and all taxes on its oil stored on the leased premises on the first Monday of March in each year, and seven-eighths (7/8ths) of the increase of taxes on the leased premises, or on such part of the leased premises as may be retained by the Lessee, under this lease, caused by the discovery of oil, gas or other hydrocarbon substances thereon, and whether assessed upon said land, or as mineral rights or otherwise; it being the intention of the parties hereto that any taxes levied or assessed due to the discovery and existence of any of said substances on the demised premises shall be borne by the parties hereto in the proportion of seven-eighths (7/8ths) by Lessee and one-eighth (1/8th) by Lessor irrespective of parties against whom levied or assessed.

15. All work done on the land by Lessee shall be at Lessee's sole cost and expense