

RANCHO PARK OIL AND GAS LEASE EXTENSION

This lease extension dated as of June 1, 1994 by and between the City of Los Angeles, a municipal corporation, acting through the Board of Recreation and Park Commissioners, hereinafter referred to as "Lessor" and Hillcrest Beverly Oil Corporation, a California corporation, hereinafter referred to as "Lessee";

Whereas, Lessee is the successor in interest to the Atlantic Refining Company and Signal Oil and Gas Company in and to an Oil and Gas Lease (No. 94A) dated May 29, 1957 for the extraction of oil and gas from the Rancho Park and Playground, as supplemented, and in and to a Lease and Agreement (No. 110) dated December 15, 1960 for the use of a portion of the park as an oil and gas production drill site, where the City of Los Angeles is Lessor in both leases, hereinafter "the Leases";

Whereas, Lessee is presently conducting oil and gas producing operations pursuant to the terms and conditions of the Leases, and;

Whereas, both of the Leases expired by their terms on May 28, 1992; and,

Whereas, Lessor and Lessee desire to extend the expiration dates of the Leases on the terms and conditions set forth herein, and;

Whereas, the public safety requires the proper abandonment and site restoration of non-productive oil well sites:

Now, therefore, for and in consideration of the mutual promises, covenants and other valuable consideration, the adequacy and receipt of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

1. The Leases shall each be extended for a period of 35 years, to expire on May 28, 2027.
2. Lessor shall establish a Rancho Park Restoration/ Abandonment Fund (hereinafter the "Fund") which will accept cash payments from Lessee to be deposited into the Fund, as described below, and earn interest on the principal balance. The money in said Fund shall be used by the Lessor to fully restore the leased premises if the Lessee fails to restore the premises at the termination of the Leases, for any reason. The Fund money shall be returned to Lessee if the restoration work is satisfactorily completed by Lessee in accordance with the terms of the Leases. The Rancho Park Restoration/Abandonment Fund shall be an interest bearing account and shall be administered by Lessor in trust. Lessee shall, upon execution of this Lease Extension agreement, provide \$50,000 cash to Lessor to be deposited into the fund; on the first anniversary date of the execution of this Lease Extension and each anniversary date thereafter, Lessee shall provide Lessor with an additional \$50,000 payment in cash until Lessee has provided Lessor with a total of \$500,000 cash. Provided however, that Lessor shall review the Fund balance and the current estimated costs of well

abandonment and restoration work every five years from the date of execution of this Lease Extension to determine the adequacy of the amount deposited to accomplish said work. Should it be determined by Lessor at any time that the Fund balance (principle and accrued interest) is insufficient to accomplish said work and to fully restore the premises, Lessee agrees to make annual payments to Lessor over the succeeding five years in an amount determined by Lessor to be sufficient to bring the Fund balance up to the revised estimated restoration costs at the conclusion of that five year period. All of the above described payments are in addition to any and all payments required by the Leases or included in this Extension Agreement. Failure to perform or complete any of the above, including payment of any increased deposits to the Fund, shall constitute a material breach of the leases and this lease extension.

3. At the expiration of the Leases, or upon earlier termination thereof, Lessee shall immediately abandon any and all then remaining oil wells and perform all necessary clean-up and site restoration work of the leased premises totally at its own cost. Should Lessee fail to so abandon any well or restore the leased premises, Lessor shall be entitled to undertake and complete the oil well abandonment, clean-up and restoration activities and be authorized to use the available balance in the Fund to pay for said activities including City expenditures for salaries, expenses, contract services, overhead, inspection and other similar costs. Lessee shall remain liable for any costs which exceed the Fund balance. Lessee shall be entitled to any remaining balance after abandonment, restoration, and clean-up is completed by Lessor.
4. The Rancho Park Restoration/Abandonment Fund is for the benefit of Lessor to assure the costs of oil well abandonment, site restoration and clean-up. Should Lessee provide, and Lessor agree, that an equal or better arrangement for providing abandonment and clean-up assurances is available, Lessee may request that this extension be amended to terminate the trust fund arrangement and return the then balance of the account to Lessee.
5. Lessee shall obtain, at its own cost, a Phase I and Phase II environmental assessment of the drill and production site area of the leased premises from a reputable and experienced independent environmental consulting firm. The results of said assessment shall be made available to Lessor. The assessment shall begin immediately after execution of this Lease Extension and shall be completed within six (6) months.
6. There are presently six (6) idle wells located on Lessor's property being used by Lessee. Lessee shall undertake necessary engineering studies to determine which, if any, of the six idle wells may be useful in future re-drilling or exploration activities. Any wells deemed unuseful for such purposes will be abandoned within one (1) year from the date of execution of this Lease Extension. Lessor shall be advised of Lessee's efforts in this regard and be entitled to review the results of Lessee's studies.

7. Should oil prices received by Lessee exceed \$25.00 per barrel on an annualized average, the royalty rate received by the Lessor shall increase from 20.0% to 22.5%.
8. Upon execution of this Lease extension, Lessee shall make a one time donation of \$50,000 to Lessor to be specifically used toward improving Rancho Park and Cheviot Hills Park and Recreation Center facilities as determined by Lessor.
9. The following Sections of Lease 94A are hereby amended as noted and are also applicable to those respective sections of Lease 110:

SECTION 19 - TAXES

POSSESSORY INTEREST TAXES

Any and all taxes which may be assessed by reason of this Lease Agreement, or LESSEE'S possession and use of the leased property, shall be the exclusive responsibility of LESSEE and not of the DEPARTMENT.

No interest in real property is hereby conveyed; however, by the execution of this Lease Agreement and any extensions thereof, and accepting the benefits thereof, a property interest known as "Possessory Interest" may be created and such property interest may be subject to property taxation. LESSEE, as the party to whom the possessory interest is vested, may be subject to the payment of property taxes levied on such interest.

If LESSEE is eligible for exemption from property taxation, it should include such possessory interest in its claim thereof.

SECTION 20 - INDEMNITY

INDEMNIFICATION

Except for the active negligence or willful misconduct of the City of Los Angeles (CITY), LESSEE undertakes and agrees to defend, indemnify and hold harmless CITY and any and all of CITY'S boards, officers, agents, employees, assigns, and successors in interest from and against all suits and causes of action, claims, losses, demands and expenses, including, but not limited to attorney's fees and cost of litigation, damage or liability of any nature whatsoever, for death or injury to any person, including LESSEE'S employees and agents, or damage to or destruction of any property of either party hereto or of third parties, that may arise out of or in connection with this Lease Agreement or the use of the Premises by LESSEE, its contractors, subcontractors of any tier, employees, licensees, or invitees.

SECTION 37 - INSURANCE

INSURANCE

- A. Insurance - LESSEE, at its own cost and expense, shall, prior to any possession or other use of the Premises, secure from an insurance company or companies licensed in the State of

California, insurance and furnish CITY with evidence of such insurance from insurers acceptable to CITY and in a form acceptable to the Los Angeles City Attorney for the following coverages and minimum limits of insurance (as summarized on Exhibit "A"), and shall maintain said insurance during the entire Term of this Lease Agreement, and any extension thereof for the Premises.

- (1) General Liability Insurance - During the term of this Lease Agreement, LESSEE shall maintain general liability insurance in an amount not less than Five Million Dollars (\$5,000,000) Combined Single Limit, per occurrence. Evidence of such insurance shall be on the City's General Liability Special Endorsement form or other form acceptable to the City Attorney, and should provide coverage for premises and operations, underground and collapse hazard, products and completed operations, contractual liability, and independent contractors.
 - (2) Automobile Liability Insurance - During the term of this Lease Agreement, at such time any motor vehicles are used as part of the operation of any programs at the Premises, LESSEE shall maintain automobile liability insurance in an amount not less than One Million Dollars (\$1,000,000) Combined Single Limit per occurrence.
 - (3) Workers' Compensation - By signing this Lease Agreement, LESSEE hereby certifies that it is aware of the provisions of sections 3700 et. seq. of the California Labor Code which require every employer to be insured against liability for Workers' Compensation or to undertake self-insurance in accordance with the provisions of that Code, and that it will comply with such provisions at all such times as they may apply during the term of this Lease Agreement. LESSEE shall also maintain employer's liability insurance in an amount not less than Five Hundred Thousand Dollars (\$500,000) in connection with Workers' Compensation Insurance, and shall provide a waiver of subrogation in favor of the City of Los Angeles.
 - (4) Adjustment of Insurance Levels - CITY reserves the right at any time during the term of this Lease Agreement, applying generally accepted Risk Management principles, to change the amounts and types of insurance required hereunder by giving LESSEE ninety (90) days written notice.
- B. Additional Insureds - LESSEE shall include the CITY and its boards, officers, agents and employees as additional insureds in all liability insurance required herein.
- C. Notice of Change In Insurance - All insurance policies required under this Lease Agreement shall expressly provide that such insurance shall not be canceled or materially reduced in coverage or limits except after thirty (30) days

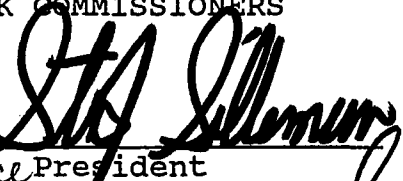
written notice by receipted delivery has been given to City Attorney, Bonds and Insurance Section, Room 1650 City Hall East, 200 North Main Street, Los Angeles, California 90012.

D. Default - If insurance is canceled, lapsed, or reduced below minimums required in this Article, the CITY at its sole option may consider this Lease Agreement to be in default and may suspend or terminate it. Termination shall occur at the expiration of a three (3) day notice given in accordance with the provisions of the Code of Civil Procedure section 1162. At the termination of three (3) days or sooner, LESSEE shall vacate the Premises and LESSEE shall have no right to possess or control the Premises or the operations conducted therein. If LESSEE does not vacate, CITY may utilize any and all court proceedings to obtain a right of possession.

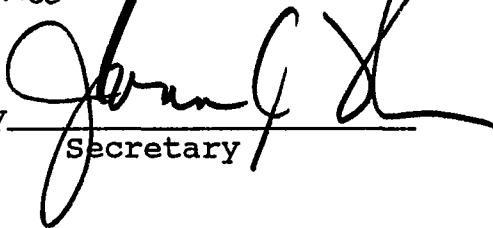
10. Except for the amendments and modifications set forth herein, the Leases, which are incorporated herein by this reference, shall remain subject to their respective terms and conditions as currently set out therein or as hereinafter amended by the parties.

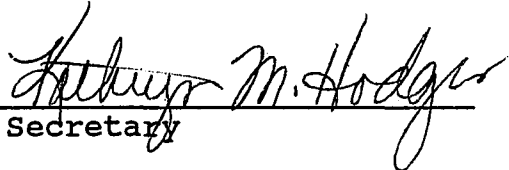
THE CITY OF LOS ANGELES
ACTING BY AND THROUGH ITS
BOARD OF RECREATION AND
PARK COMMISSIONERS

Hillcrest Beverly Oil
Corporation, a California
corporation - Lessee

By 
Vice President

By 
Morris V. Hodges, Pres.

By 
Secretary

By 
Secretary

APPROVED AS TO FORM:

JAMES K. HAHN, City Attorney

By 
Managing Assistant City Attorney

Date: JUN 15 1994