OIL AND GAS LEASE NO. 2
(Royalty)

By and Between

CITY OF HERMOSA BEACH,
"City"

and

WINDWARD ASSOCIATES
and
GLG ENERGY, L.P.
"Lessee"

DEPO EXHIBIT 37
FOR IDENTIFICATION
WITNESS VOZE
DATE 8-27-07
NIKKI ROY, CSR #3052
55PP

CH 000401

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CITY OF HERMOSA BEACH, CALIFORNIA

Oil and Gas Lease No. 2
(Royalty)

This Oil and Gas Lease ("Lease") is entered into this 14TH day of January, 1992 (the "Lease date"), pursuant to Division 6 of the Public Resources Code, and is between the CITY OF HERMOSA BEACH, a California municipal corporation (hereinafter referred to as the "City"), and WINDWARD ASSOCIATES, a California limited partnership and GLG Energy, L.P., a limited partnership (hereinafter together referred to as the "Lessee").

RECITALS

A. The City has entered into that certain Oil and Gas Lease No.1, dated October 14, 1986, and as amended on December 16, 1986, on September 27, 1988, and on July 23, 1991 (hereinafter referred to as the "Uplands Lease") which provides for the lease of certain City lands which lie above the mean high tide line of the Pacific Ocean within the boundaries of the City (the "uplands").

B. Said Uplands Lease provided for the use of the existing City Maintenance Yard (more specifically described in said Uplands Lease, excepting existing structures, both above and below ground, which would remain available for City use including ingress and egress) as the drill site.

C. The City desires to enter into a lease for the extraction and removal of oil and gas deposits below and seaward one (1) nautical mile of the mean high tide line of the Pacific Ocean within the boundaries of the City which have been granted to the City by the State of California (the "tidelands").

D. The City-owned property on which the City Maintenance Yard exists (the "Drill Site"), as more specifically described in Exhibit "A" attached hereto and made a part hereof by reference, is the only location authorized by a vote of the people of the City for both tidelands and uplands oil drilling activities (Initiative Ordinance No. 84-758).

E. City acknowledges that Lessee has obtained other oil and gas leases from private land owners and that the City and Lessee intend to also use the Drill Site to drill wells into other adjacent lands not owned by the City.

NOW, THEREFORE, in consideration of the royalty to be paid and the covenants, conditions, agreements and stipulations contained in this Lease, the City leases to the Lessee certain lands comprising the uplands (including the Drill Site) and the tidelands, which will be collectively referred to as the leased lands, located in the City of Hermosa Beach, California and as more specifically described in Exhibit "A" and made a part hereof by reference.

1. TERM AND PURPOSE OF LEASE

a. This Lease shall supersede the Uplands Lease and said Uplands Lease shall have no further force and effect upon the Lease date except as provided in Section 20 below.

b. The City hereby leases, lets and demises the leased lands unto Lessee for a term of thirty-five (35) years (the "Term") commencing from the Lease date or so long as the Lessee is diligently conducting, producing, drilling, deepening, repairing, redrilling or other necessary lease or well maintenance operations on the leased lands or adjacent lands, but in no event shall the Term exceed thirty-five (35) years.

c. The Lessee shall commence operations for the drilling of a well for oil or gas within six (6) months from the date the Lessee has received all Federal, State, County and local government permits required to allow such drilling operations (the "Primary term"), but in no event shall this Primary term be longer than two (2) years from the Lease date, except that said two-year limitation period shall be subject to the provisions of Section 30 in the event of delays in performance which are not in the control of the Lessee. If the Lessee (i) fails to commence such operations before the expiration of the Primary term or (ii) commences such operations prior to the expiration of the Primary term and fails to diligently pursue such operations after the expiration of the Primary term, then this Lease shall terminate in accordance with the provisions of Section 20 below.

d. Whenever the leased lands and the adjacent lands drilled from the Drill Site cease to produce oil or gas subsequent to the Primary term and prior to the end of the Term of this Lease, this Lease will continue in force if within six (6) months after production ceases, or such longer period as the City may authorize, the Lessee commences and prosecutes with reasonable diligence, drilling, deepening, repairing, redrilling, injecting and disposing of water or other operations for restoring production of oil or gas from the leased lands and/or the adjacent lands drilled from the Drill Site.

e. The Lessee shall have the sole and exclusive right to use the Drill Site to drill into the leased and adjacent lands, and to prospect for, drill for, produce and take only oil, gas and

other hydrocarbon substances and associated water recovered incidental to such prospecting, drilling and production from the leased lands together with the right to inject and dispose of water and to conduct secondary recovery operations from said Drill Site. Unless otherwise provided in this Lease, this right includes the right to conduct geological and geophysical surveys on the leased lands for the purpose of determining subsurface conditions. However, the City may permit others to conduct geological or geophysical surveys on the leased lands as provided in sections 6212.2 and 6826 of the Public Resources Code and the applicable regulations of the City.

f. This Lease does not give the Lessee the privilege or right to store gas within the geological zones underlying the leased lands nor any other privilege or right not expressly stated.

g. City shall deliver possession of the Drill Site to Lessee and Lessee shall accept possession of the Drill Site from City in accordance with the provisions set forth in Section 13.

2. DRILL SITE AND MINIMUM ANNUAL ROYALTY PAYMENT

a. Drill Site

The Lessee shall pay to the City an allocation of the royalty for use of the Drill Site as provided in the Schedule of Royalty Percentage attached hereto as Exhibit "B" and made a part hereof by reference. If any portion of the leased lands is quitclaimed as to all zones, the annual royalty shall be reduced proportionately. This reduction shall become effective on the anniversary of the Lease date next following the date of said quitclaim.

b. Minimum Annual Royalty Payment

(1) Notwithstanding any provisions to the contrary in this Lease, the Lessee shall pay to City a minimum royalty in the amount of Five Hundred Thousand Dollars ($500,000.00) per year (the "Minimum Royalty"). So long as the Minimum Royalty is paid to City and there is no event of default by Lessee, this Lease shall remain in force and effect. Lessee's obligation to pay the Minimum Royalty shall commence at the beginning of the fourth (4th) anniversary of the date of the completion of the first well drilled from the Drill Site and shall be paid within thirty (30) days after the end of said 4th anniversary and within thirty (30) days after each such anniversary of such date thereafter. At the beginning of the thirteenth (13th) anniversary of the date of completion of the first well, said Minimum Royalty shall be calculated based upon ten percent (10%) of the fair market value of the Drill Site, and shall be adjusted annually thereafter to reflect any increase or decrease in fair market value.

The fair market value of the Drill Site shall be annually determined by mutual agreement of the parties or as follows:

(a) One hundred twenty (120) days prior to the beginning of the thirteenth (13th) anniversary of the date of completion of the first well and prior to the beginning of each succeeding anniversary of that date thereafter, City shall select a competent appraiser to appraise the Drill Site. The appraiser shall assume the highest and best use of property in an M-1 zone other than use for production of oil and/or other hydrocarbon substances.

(b) In the event such appraisal is unsatisfactory to the Lessee, Lessee shall have the right to demand a reappraisal of the property. In such event, City shall select one appraiser and Lessee shall select one appraiser, and the two thus selected shall select a third neutral appraiser. An appraisal in writing made and signed by said appraisers or a majority of them, shall be deemed to fix the fair market value of said property. In the event that no majority of the appraisers can agree, then the appraisal of the third neutral appraiser shall fix the fair market value of the property.

(c) The cost of such appraisal(s) to determine the fair market value of said property shall be borne equally by both parties hereto.

(2) Lessee may have credited against the Minimum Royalty from the actual royalty it pays to City hereunder, a maximum amount of $281,250 each year from restricted royalty. "Restricted royalty " is that royalty received by the City which must be deposited in a special tide and submerged lands account to be held in trust and to be expended only for the promotion and accommodation of commerce, navigation and fisheries, for the protection of lands within the boundaries of the City, and for the promotion, accommodation, establishment, improvement, operation, and maintenance of public recreational beaches and coastline for the benefit of the public or otherwise authorized by applicable law. "Unrestricted royalty" is that royalty, other than restricted royalty, received by the City which the City may expend in accordance with applicable City laws.

(3) Actual royalties paid by Lessee to City on production as provided in this Lease, shall be credited against Lessee's obligation to pay the Minimum Royalty as provided herein. In the event said payments of royalties from actual production or the reasonable estimate of said payments is not equivalent to the amount of the Minimum Royalty required herein, then Lessee may pay the balance due, if any, for each annual period in accordance with the provisions hereinabove.

(4) In the event that Lessee fails to pay the Minimum Royalty as provided hereinabove, City may terminate this Lease in accordance with the provisions of Section 20 below.

3. ROYALTY

a. The Lessee shall account for and pay to the City in money as royalty on oil, a percentage, as provided in Exhibit "B", of the current market price of all oil production removed and/or sold from the leased lands. The current market price shall be determined at, but not less than, the average posted price at time of sale as available and actually being paid, adjusted for oil of like character, gravity and quality, in the nearest field at which oil of like gravity and quality is being sold in substantial quantities. The current market price shall include any premium or bonus paid for oil. Money royalty on oil shall be due no later than the twenty-fifth day of the calendar month following the calendar month in which the oil is produced, except that the payment of the Minimum Royalty shall be in accordance with Section 2, above.

b. At the City's option, subject to the provisions of Section 6 below, the Lessee shall deliver to the City in kind its royalty percentage as provided in Exhibit "B", of all oil production removed or sold from the leased lands. Lessee shall fully cooperate with City in arranging for coordination of shipping of City's in kind oil. City shall have the right to use Lessee's shipping pipeline, at City's risk and without charge, to ship City's in kind oil.

c. The Lessee shall account for and pay to the City in money as royalty on non-oil production, which consists of dry gas, natural gasoline, and other products extracted and saved from the gas produced from the leased lands (except gas used for lease operations or reinjected into the leased lands, or which is vented and flared gas because of no available market), a percentage, as provided in Exhibit "B", of the current market price of all non-oil production removed or sold from the leased lands. The current market price shall be determined at, but not less than, the average price actually being paid at time of sale in the nearest field at which non-oil production of like quality is being sold in substantial quantities. The current market price shall include any premium or bonus paid for the non-oil production. Money royalty on non-oil production shall be due no later than the twenty-fifth day of the calendar month following the calendar month in which the non-oil production is produced, except that the payment of the Minimum Royalty shall be in accordance with Section 2, above.

d. At the City's option, subject the provisions of Section 6 below, the Lessee shall deliver to the City in kind, at the gas separator, and in lieu of money royalty, its royalty

percentage as provided in Exhibit "B" of all non-oil production removed or sold from the leased lands. Lessee shall fully cooperate with City in arranging for coordination of shipping of City's in kind non-oil production. City shall have the right to use Lessee's shipping pipeline, at City's risk and without charge, to ship City's in kind non-oil production.

e. In consideration of the City providing the Drill Site, the Lessee shall also account for and pay to City in money a royalty as set forth in Exhibit "B" for all oil and non-oil production from wells drilled from the Drill Site into the leased lands, through the leased lands into adjacent lands or directly into adjacent lands, or allocated to such wells pursuant to any pooling or unitization agreement approved by the City as provided in Section 16. The current market price of such oil and non-oil shall be determined in accordance with the method as provided in Sections 3.a. and 3.c. above, and shall include any premium or bonus paid for the oil and non-oil production. This royalty shall be due no later than the twenty-fifth day of the calendar month following the calendar month of production.

f. In the event that in the reasonable judgment of Lessee, it shall be necessary to use diluent in its producing operations or to clean, treat or dehydrate the oil produced from any wells drilled into the above described lands, Lessee may clean, treat or dehydrate the same, and Lessor hereby agrees to pay its pro rata share of its royalty share for the actual reasonable charge for the cost of any diluent used in connection with production and for dehydration, cleaning and treating and a reasonable charge for transportation to the treating plant, but said charge to Lessor for such cleaning, treating and dehydration shall not exceed five cents ($0.05) per barrel for the net oil cleaned, treated or dehydrated, which proration shall be deducted monthly from the royalty due Lessor.

4. ROYALTY STATEMENTS

The Lessee shall furnish monthly true royalty statements in whatever form the City reasonably prescribes. At a minimum, the statements shall show for the preceding calendar month the amount, gravity and price received of all oil production and the amount and the price received of all non-oil production from the leased lands. Each monthly royalty statement to City shall have attached copies of the most recently filed production statement by Lessee to the California State Division of Oil and Gas, commonly known as form DOG 110.

5. DISPOSITION OF ROYALTY

The Lessee shall be empowered to convey good title to the City's royalty share of oil, gas, natural gasoline and other

products produced and saved, if and when such sales have been approved in accordance with the provisions of Section 6 below. The proceeds from the royalty share of oil, gas, gasoline or any other products produced from the leased lands shall be held by the Lessee in trust for the City until the Lessee makes the full royalty payment to the City.

6. APPROVAL OF SALES CONTRACTS AND TAKING ROYALTY IN KIND

a. The Lessee shall file with the City copies, certified by the Lessee to be true, of all contracts and other agreements for the sale or other disposition of oil, gas, natural gasoline and other substances produced from the leased lands. If the City elects to take its royalty share of production in money instead of in kind, the Lessee shall not sell or otherwise dispose of the royalty share of the production except in accordance with sales contracts or agreements approved by City as follows:

(1) Lessee's disposition of oil or non-oil production by spot sales, entered into in good faith by Lessee in the interest of both the Lessee and the City, shall be deemed approved by the City. "Spot sales" for purposes of this Lease shall mean contracts or agreements for disposition of oil or non-oil production with a term of less than thirty (30) days.

(2) Short term contracts or agreements for disposition of oil or non-oil production shall first be approved in writing by City, which approval shall not be unreasonably withheld. City shall approve or disapprove such contracts or agreements by written notice to Lessee within five (5) days of City's receipt of complete contracts or agreements to be executed by Lessee. City's failure to disapprove such contracts or agreements within said period shall be deemed approval by the City. "Short term contracts of agreements" for purposes of this Lease shall mean contracts or agreements for the dispositions of oil or non-oil production with a term of thirty (30) days or more but not longer than ninety (90) days.

(3) Long term contracts or agreements for the disposition of oil or non-oil production shall first be approved in writing by the City, which approval shall not be unreasonably withheld. City shall approve or disapprove such contracts or agreements by written notice to Lessee within twenty (20) days of City's receipt of complete contracts or agreements to be executed by Lessee. City's failure to disapprove such contracts or agreements within said period shall be deemed approval by the City. "Long term contracts of agreements" for purposes of this Lease shall mean contracts or agreements for the dispositions of oil or non-oil production with a term in excess of ninety (90) days.

b. In the event that the City elects to take in kind its oil or non-oil production, or both, as provided in Sections 3.b. and 3.d. above, then City shall exercise such option upon sixty (60) days prior written notice to Lessee but subject to any existing contracts or agreements for the disposition of oil or non-oil production previously approved by the City.

c. In the event that the City disapproves of a contract or agreement for the disposition of oil or non-oil production submitted by the Lessee to the City, and if Lessee thereafter elects to dispose of its share of such oil or non-oil production pursuant to such contract or agreement, then in that event, and notwithstanding any other provision to the contrary in this Lease, the City shall automatically be deemed to have elected to take its share of oil or non-oil production, as the case may be, in kind for the entire period during which Lessee so disposes of its share of production pursuant to such contracts or agreements. The City shall thereupon assume the full responsibility for taking its royalty in kind and timely making disposition thereof as hereinabove provided during such period.

d. If the City elects to take in kind its royalty share or shares of oil or non-oil production, or both, it may thereafter elect from time to time, and at any time, to change the method of payment of royalties hereunder on oil and non-oil production or both, in like manner and by like notice and subject to the same restrictions and limitations.

7. EXAMINATION OF RECORDS AND INSPECTION OF PREMISES

Insofar as it has the right to do so, the Lessee consents to an examination by any person authorized by the City of the books and records of any individual, association or corporation which has transported for or received from the Lessee any oil, gas, natural gasoline or other products produced from the leased lands. The Lessee also consents to the inspection at all times by any person authorized by the City of its operations on the leased lands, including wells, improvements, machinery and fixtures used in connection with those operations.

For purposes of verifying payments of royalty due the City, representatives of the City shall have reasonable rights upon written request, at City expense, to inspect the Lessee's books and records and independently audit the results of Lessee's operations. The Lessee shall keep all books and records of such operations for a period not less than four (4) years from the end of the fiscal year to which they pertain. If, as a result of an independent audit of Lessee's books by a Certified Public Accountant hired by the City, an additional amount is due the City for any fiscal year which exceeds by five percent (5%) the amount actually paid to City for such fiscal year, Lessee shall pay such differential amount

plus the cost of such audit upon demand of the City.

8. PRODUCTION FACILITIES; MEASUREMENT OF PRODUCTION; RIGHT TO COMMINGLE

a. The Lessee shall furnish to the City for its approval detailed plats, drawings and other pertinent data concerning the oil and gas facilities and pipelines to be used for the production, processing, measurement and transportation of the oil, gas, and other hydrocarbon substances from the leased lands. Submission of all information and data required and provided by Lessee and accepted by City in Lessee's application for a conditional use permit from City shall be deemed to fully satisfy this requirement. After completion of construction, the Lessee shall provide to City "as-built" drawings showing the exact location of all facilities and pipelines.

b. The Lessee shall install sampling and measuring equipment approved by the City, which approval shall not be unreasonably withheld, necessary for the sampling and measuring of the oil, gas and other hydrocarbon substances. The standard of approval by the City shall be the type and quality of sampling and measuring equipment (LACT unit) reasonably accepted and used in the oil industry.

The Lessee shall measure and account for all oil, gas and other hydrocarbon substances produced from, used on or transported from the leased lands and adjacent lands from the Drill Site in accordance with the terms of this Lease. The City shall have the right at all times to witness the measurement and sampling of all oil, gas and other hydrocarbon substances. The City may elect to measure and sample the oil, gas and other hydrocarbon substances in the presence of a representative of the Lessee. The Lessee shall furnish samples of oil, gas and other hydrocarbon substances that are required by the City for laboratory tests. The Lessee shall be given the opportunity to witness the tests conducted by the City, and the readings and results of those tests shall be binding on the Lessee. Said City tests shall be made in accordance with the standard procedures and practices in the oil industry and by qualified laboratory technicians.

c. Notwithstanding any provision to the contrary in this Lease, Lessee may commingle oil of like quality produced from the leased lands (i.e., uplands and tidelands) subject to this Lease and with oil of like quality produced from any other lands leased and controlled by Lessee.

For purposes of accounting hereunder, the quantity of oil produced and saved from the leased lands subject to this Lease shall be determined on the basis of gauges or meter readings and adjusted to conform to shipping tank measurements of the commingled

oil. Lessee shall take samples and make tests of the oil produced and saved from the leased lands subject to this Lease prior to commingling, and such samples and tests shall be the basis of determining the gravity and the water, sand and other foreign substance content of such oil.

9. PRODUCTION FOR LEASE OPERATIONS

a. The Lessee may use oil produced from the Lessee's wells drilled into the leased lands or adjacent lands for lease operations only. Oil so used shall be reported to the City monthly. Such oil shall not be included in computing for royalty purposes the total production of oil removed or sold from the leased lands or adjacent lands during the month and the current market price of such production.

b. The Lessee may use gas produced from the Lessee's wells drilled into the leased lands or adjacent lands, or gas received currently in exchange for gas so produced, for the following purposes only: fuel, gas lift, injection into oil sands from which the well or wells may be producing and reinjection into the leased lands. Gas so used, or gas given in exchange for gas so used, shall be reported to the City monthly, but shall not be included in computing for royalty purposes the total production removed or sold from the leased lands or the adjacent lands during the month and the current market price of such production. The City may take, free of cost to it and at no expense to the Lessee, all produced surplus gas which cannot be marketed or beneficially utilized by the Lessee. The surplus gas taken by the City shall be for the use of the City of Hermosa Beach, in accordance with the terms set forth in the State of California's grant of tidelands and submerged lands to the City of Hermosa Beach in 1919. The exercise of this option by the City and Lessee's use in operations shall relieve the Lessee of the obligation to pay royalty on such as provided in Section 3, above.

10. DESIGNATION OF OPERATOR

The Lessee hereby designates Macpherson Oil Company, a general partner of Windward Associates, one of the two parties comprising the Lessee, as the operator who shall give and receive all notices and make all payments to the City under this lease. All notices to be given under this Lease shall be deemed to have been fully given when made in writing and deposited in the United States mail, registered or certified and postage prepaid, and addressed as follows:

To the City:

City Manager
City of Hermosa Beach
Civic Center
1315 Valley Drive
Hermosa Beach, CA 90254

To the Lessee:

Windward Associates
2716 Ocean Park Blvd, Suite 3080
Santa Monica, CA 90405

To the Co-Lessee:

GLG Energy, L.P.
400 W. 15th, Suite 1400
Austin, TX 78701

To the Operator:

Macpherson Oil Company
2716 Ocean Park Blvd., Suite 3080
Santa Monica, CA 90405

The addresses to which the notices shall be mailed may be changed by written notice given by one party to the others as provided above. Nothing contained in this Section 10 shall preclude the giving of any notice by personal service to the Lessee or its officer or agent. All payments specified in this Lease shall be made to the City at the above address.

11. TAXES

The Lessee shall pay timely all taxes or assessments levied under the laws of any state, county, city or the United States of America against the Lessee's interest in the leased lands e.g., possessory interest property tax, against improvements placed on the leased lands by the Lessee and against Lessee's share of all oil, gas and other products produced from the leased lands. There shall be no deduction from the royalties payable to the City by reason of any charges levied against the Lessee for the support of the California Division of Oil and Gas. Notwithstanding the above, any property tax, severance tax or windfall profit tax enacted by the Federal Government or the State of California after January 1, 1983, and applicable to the City's interest in the leased lands or the City's royalty share of production, shall be paid by the City to the extent only of its applicability to the City's interest or royalty share.

12. EXPLORATION AND DEVELOPMENT OBLIGATIONS

a. It is contemplated that the exploration and development of the leased lands and the adjacent lands from the Drill Site will take place in four separate stages or phases. The initial phase will be the "Permit Phase" during which the parties shall attempt to obtain all permits and other governmental approvals and authorizations which are necessary to proceed with the actual drilling and development of the leased lands and adjacent lands. Should all such permits, authorizations and approvals not be obtained by the close of the Primary term (including any extensions thereof as provided in this Lease) as set forth in Section 1, then this Lease shall terminate. Alternatively, if all necessary permits and other approvals and authorizations have been timely obtained, Lessee shall proceed with the "Exploration Phase" which shall involve the drilling of at least one, and as many as three exploratory wells within the leased lands. Should the exploratory well or wells indicate a lack of commercial production in the opinion of Lessee, then this Lease shall terminate. If the exploratory well or wells indicate that production testing is warranted in the opinion of Lessee, then Lessee shall proceed with the "Testing Phase" during which Lessee shall conduct production tests on the exploratory well(s) for a period of up to two hundred seventy (270) days following the completion of the last exploratory well drilled by Lessee. Upon conclusion of the Testing Phase, Lessee shall make a determination whether or not commercial production can be obtained from the leased lands. If Lessee decides that commercial production cannot be obtained, this Lease shall terminate. Should Lessee decide that commercial production can be obtained, Lessee shall immediately proceed with the "Development and Production Phase." If that occurs, Lessee shall install a permanent drill site at the Drill Site and thereafter operate and produce the exploratory wells, and shall drill and operate additional wells from the Drill Site to the leased lands as required by this Lease, and may drill additional wells from the Drill Site to adjacent lands as allowed by this Lease. Lessee shall conduct all drilling, testing and production operations, whether during the Exploration Phase, the Testing Phase or the Development and Production Phase, in accordance with the generally accepted good oil field practices, the provisions of this Lease and any conditions of approval in applicable City permits. The City shall temporarily relocate its maintenance yard which presently occupies the Drill Site in order for Lessee to proceed with the Exploration Phase and the Testing Phases as provided in Section 13.a. The maintenance yard shall be permanently relocated pursuant to Section 13.b. should this Lease continue into the Development and Production Phase.

b. The Permit Phase shall commence immediately upon the full execution of this Lease by Lessee and City.

(1) During the Permit Phase, Lessee shall diligently pursue the acquisition of all permits necessary for conducting drilling and producing operations on the leased lands and adjacent lands from the Drill Site. In addition to diligently pursuing the acquisition of all necessary permits, and to the extent Lessee has not already done so, Lessee shall prepare and submit to City in conjunction with its application for a conditional use permit, an adequate conceptual project description which shall include a plot plan and description of the equipment and facilities which shall be located on the Drill Site (i) during the Exploration Phase and the Testing Phase, and (ii) during the Development and Production Phase. Such submission shall be made by Lessee no later than one hundred twenty (120) days after the Lease date. Final plans for the project shall be consistent with concept plans approved by the City in the issuance of a conditional use permit.

(2) The City shall diligently pursue and attempt to obtain approval of this Lease from the State Lands Commission of the State of California (the "SLC"). To the extent reasonably requested by the City, Lessee shall fully cooperate and assist the City in attempting to obtain such approval from the SLC. Lessee expressly acknowledges that this Lease shall not be deemed effective nor delivered until after compliance with the provisions of the Public Resources Code, Sections 7051 through 7062, inclusive, and the approval of the SLC. In the event this Lease is not approved by the SLC, the Uplands Lease shall continue in full force and effect as provided in Section 20 below.

c. If all permits and other governmental approvals and authorizations required for the drilling and operation of wells from the Drill Site pursuant to this Lease have been obtained and the City has completed the temporary relocation of its maintenance yard as provided in Section 13.a. below, Lessee shall promptly proceed with the Exploration Phase by commencing, prior to the close of the Primary term (including any extensions thereof as provided in this Lease), and thereafter diligently prosecute the drilling of the exploratory well which is described in Exhibit "E", attached hereto and made a part hereof by reference.

(1) Lessee shall continue with the drilling of such well until all the potential producing objectives as shown in Exhibit "E" have been encountered or determined not to exist, or until mechanical difficulties or other matters beyond the reasonable control of Lessee render the further drilling of the well impracticable in Lessee's judgment. Once the well has been drilled to its objective depth and logs and tests have been conducted as provided in subsection h. herein, Lessee shall, within one hundred twenty (120) days of the cessation of drilling operations (as defined below), either (i) commence with the actual drilling of a second exploratory well from the Drill Site to a

location selected by Lessee to reasonably test and evaluate the productive capacity of a portion of the leased lands, or (ii) actually commence and deliver written notice to the City of Lessee's election to commence with the Testing Phase utilizing only the initial exploratory well, or (iii) deliver written notice to the City of Lessee's election to terminate this Lease, together with an executed quitclaim of same in recordable form.

(2) Should Lessee elect to timely proceed with the drilling of a second exploratory well, then upon the cessation of drilling operations, Lessee shall likewise have a period of one hundred twenty (120) days within which to either (i) commence with the actual drilling of a third exploratory well on the leased lands, (ii) commence and deliver to the City written notice of Lessee's election to commence with the Testing Phase utilizing the two exploratory wells drilled by Lessee, or (iii) to terminate this Lease by delivering written notice of termination to the City together with a quitclaim of same in recordable form.

(3) In the event Lessee timely commences with the actual drilling of the third exploratory well, then upon the cessation of drilling operations, Lessee shall have a period of thirty (30) days within which to either (i) commence and deliver written notice of Lessee's election to commence with the Testing Phase, or (ii) deliver to the City written notice of Lessee's election to terminate this Lease, together with an executed quitclaim of same in recordable form. Unless this Lease is terminated by Lessee, the Exploration Phase shall terminate and the Testing Phase shall commence upon the date of delivery to City of Lessee's written election to proceed with the Testing Phase.

d. Upon commencement of the Testing Phase, Lessee shall install the facilities and equipment on the Drill Site which shall enable Lessee to operate and produce oil and/or gas from the exploratory well(s) for the purpose of evaluating the quantity, rate and quality of production from such well(s) and obtain an indication of the production decline and recoverable reserves which may be produced from the leased lands, and to allow Lessee to determine in its sole opinion, whether or not Lessee has made a commercial discovery of oil and/or gas.

(1) During the Testing Phase, Lessee may run such tests and conduct such surveys on, in and with respect to the exploratory well(s) as it decides are reasonably likely to provide information about the quality, character and extent of each separate potentially commercial oil zone or gas zone (as defined below) encountered by the exploratory well(s).

(2) Subject to the right of Lessee to quitclaim all or any part of its interests as provided in this Lease at any time, the Testing Phase shall terminate and the Development and

Production Phase shall automatically commence upon the delivery to the City of written notice from Lessee that it is proceeding with the Development and Production Phase, or upon two hundred seventy (270) days from and after the date of commencement of the Testing Phase, whichever occurs first.

e. Upon commencement of the Development and Production Phase, Lessee shall promptly undertake site preparation and diligently continue to install facilities and equipment necessary to establish a permanent drill site at the Drill Site.

(1) During the Development and Production Phase which shall continue throughout the remaining term of the Lease, Lessee shall, subject to the other terms and provisions of this Lease, operate and produce those wells which it has drilled from the Drill Site which are capable of production in paying quantities (i.e., the value of Lessee's share of the production from such well at the Drill Site is at least equal to the cost of operation of that well), and shall continuously drill wells as provided in this Section until the leased lands are fully drilled (as defined in subsection f. herein), or until Lessee decides to cease further drilling and quitclaim to the City those portions of each of the commercial oil or gas zones underlying the leased lands which Lessee has elected not to drill and develop.

(2) The continuous drilling requirement shall start upon one hundred twenty (120) days after commencement of the Development and Production Phase. Lessee shall commence with the drilling of a well within said 120-day period, thereafter diligently prosecute the drilling of the same to its objective depth, and either plug or abandon the well or complete the same as a well capable of producing oil and/or gas. Thereafter, Lessee shall continuously conduct drilling operations from the Drill Site using one string of tools for wells bottomed on the leased lands or on adjoining lands under lease to Lessee, allowing no more than one hundred twenty (120) days to elapse between the cessation of drilling operations for one well and the commencement of drilling operations for the next, until the leased lands have been fully drilled or Lessee elects not to conduct further drilling.

(3) If Lessee commences with the actual drilling of any well prior to the last day of the 120-day period commencing from the cessation of drilling operations on the immediately preceding well, Lessee shall receive a credit for the period between the actual date of commencement of drilling for such well and the date the 120-day period would have expired, and that number of days shall constitute a credit period (the "Credit Period"). Lessee may add days to the Credit Period in similar fashion by commencing with actual drilling of subsequent wells sooner than the last day of the 120-day period allowed between wells under this Section. The days comprising the Credit Period may be used and

applied by Lessee at any time, and from time to time, with respect to the drilling of any subsequent well or wells under this Lease to extend for any number of days, up to the total amount of days then comprising the Credit Period, the 120-day period for commencement of actual drilling of any such well(s), by using each day of the Credit Period to extend the date for commencement of the drilling of any well for one day.

f. Lessee has been or will be restricted by permit conditions to the operation of no more than thirty (30) wells from the Drill Site, and several of the well slots at the Drill Site have been allocated to the drilling of adjacent lands under lease to Lessee. The leased lands shall be fully drilled when Lessee has satisfied the well spacing requirements set forth immediately below. However, notwithstanding those well spacing requirements, the City and Lessee agree that the leased lands shall be deemed to be fully drilled at such time as Lessee has drilled a total of twenty-one (21) wells which are bottomed on the leased lands in the tidelands. Subject to that limitation, Lessee shall be obligated to continuously drill wells to each separate commercial oil or gas zone or quitclaim its rights in and to the undeveloped portions of such commercial oil or gas zone until Lessee has drilled the number of wells on the leased lands as stated herein and in accordance with the following:

(1) At least one (1) well for the production of oil into each twenty (20) acres of the leased lands overlying such commercial oil zone (defined below) where the bottom of the lowest productive interval of the well as completed for production is at a vertical depth of less than six thousand (6,000) feet beneath the surface of the earth.

(2) At least one (1) well for the production of oil into each forty (40) acres of the leased lands overlying such commercial oil zone where the bottom of the lowest productive interval of the well as completed for production is at a vertical depth in excess of six thousand (6,000) feet beneath the surface of the earth.

(3) At least one (1) well for the production of gas or gas condensate from any commercial gas zone (defined below) into each one hundred sixty (160) acres, or a major fraction thereof, of the leased lands overlying such commercial gas zone.

(4) The well spacing requirements of this subsection f. shall apply separately to each separate oil or gas zone capable of producing oil and/or gas in commercial quantities to the extent the same exists and is productive within the leased lands. Any well may be completed for production in more than one oil or gas zone provided that the same can be done in accordance with generally accepted good oil field practices, and such well

will apply towards satisfaction of the well spacing requirements for each separate oil or gas zone in which such well is completed for production.

g. The City and Lessee recognize that Lessee is a so-called "common lessee" in that Lessee has lands under lease which are adjacent or are in close proximity to the leased lands, and this Lease grants Lessee the right and Lessee intends to exercise the right to drill wells from the Drill Site to such adjacent lands under lease to Lessee for oil and gas production. The City and Lessee have agreed that Lessee shall have the following obligations to drill protection wells to protect the leased lands from drainage, whether caused by Lessee's own producing operations on other lands or by producing operations conducted by others.

(1) Lessee shall have no obligation to drill protection wells to offset any draining wells in existence as of the Lease date and no obligation to drill protection wells to offset any draining wells after the leased lands have been fully drilled (as defined in subsection f. above).

(2) Upon commencement of the Development and Production Phase, and with respect to any wells drilled and completed subsequent to the Lease date, whether by Lessee or others, the obligation of Lessee to drill protection wells shall be as follows:

(a) With respect to any well which is producing oil or oil and associated gas in commercial quantities (i.e., a volume of production reasonably estimated to be sufficient to allow Lessee to cover the cost of drilling, completing, equipping and operating the well, plus a reasonable return on investment from Lessee's share of production) with any part of its producing interval within three hundred thirty (330) feet from the exterior boundary of the lands then subject to this Lease, Lessee shall, within one hundred twenty (120) days from the date such well is determined to be capable of commercial production, or within one hundred twenty (120) days after commencement of the Development and Production Phase, whichever occurs last, commence and diligently prosecute the drilling and completion of a protection well to be located so that the producing interval thereof is situated within three hundred thirty (330) feet from the point on the exterior boundary of such leased lands which is nearest to the productive interval of the commercial producing well on adjoining lands which is to be offset; provided, however, that Lessee shall have no obligation to drill such a protection well if a well already exists on the leased lands within that location.

(b) With respect to any well which is producing gas and/or gas condensate in commercial quantities with any part of its producing interval within one thousand three

hundred twenty feet (1,320) feet from the exterior boundary of the lands then subject to this Lease, Lessee shall, within one hundred twenty (120) days from the date such well is determined to be capable of commercial production, or within one hundred twenty (120) days after commencement of the Development and Production Phase, whichever occurs last, commence and diligently prosecute the drilling and completion of a protection well to be located so that the producing interval thereof is situated within one thousand three hundred twenty (1,320) feet from the point on the exterior boundary of such leased lands which is nearest to the productive interval of the commercial producing well on adjoining lands which is to be offset; provided, however, that Lessee shall have no obligation to drill such a protection well if a well already exists on the leased lands within that location.

h. An electric log or logs shall be made of all zones penetrated, commencing above the structurally highest zone reasonably expected to potentially be productive of oil and/or gas, and continuing down to the drill depth of each well, or to such depth as is mechanically possible. At least one oriented core or dip meter record shall be made during the drilling of the first well to each zone if it is mechanically practicable to do so, or during the drilling of the earliest subsequent well in which it is mechanically practicable to make such core or record.

True copies of all electric logs, surveys, paleontological reports, dip meter records, oriented core records, rock core records, and all other drilling, test and production data taken by Lessee or its agents shall immediately be available to representatives of the City. City representatives shall also have ready access to all rock cores and samples which may be obtained during the drilling of each well, and may have a representative present to observe the drilling, logging, coring or testing of any well or wells drilled by Lessee from the Drill Site, all at the City's sole cost, risk and expense. The City shall receive and maintain all such information as confidential in the manner provided in Section 14.

i. For purposes of this Lease, the following definitions shall apply.

(1) The term "drilling operations" shall include any of the following: Actual drilling in the ground, logging or surveying the well bore, coring, sidewall sampling or coring, drill stem or formation testing, carrying on fishing operations, running and cementing protection or production casing, running tubing, perforating, milling casing, reaming, setting whip-stock for redrilling, conducting operations to stop lost circulation and actual plugging and abandonment of the well.

(2) The term "cessation of drilling operations" shall mean that drilling operations (as defined immediately above) are no longer being conducted on the well, but shall not include a temporary stoppage of drilling operations of less than seventy-two (72) hours if there is a resumption of drilling operations in the same well by the close of that 72-hour period, or a similar stoppage of longer duration which has been approved by the City.

(3) An "oil zone" or a "gas zone" is any sequence of strata containing oil, gas or other hydrocarbon substances, where the reservoir characteristics, such as pressure, temperature, specific gravity, viscosity, permeability and porosity, are similar, and whenever such sequence of strata is separated from dissimilar producing strata by an impervious layer of shale or other such rock. An oil zone is a zone which produces primarily oil or oil and associated gas. A gas zone is a zone which produces primarily gas and/or gas condensate. By way of example of what is intended to constitute a zone, the parties currently expect that there are two zones potentially productive of oil and/or gas under the leased lands, the so-called "Main Zone" and the "Del Amo Zone."

(4) A "commercial oil zone" or "commercial gas zone" is an oil zone or a gas zone underlying the leased lands which can be drilled, developed and produced from the Drill Site in such a manner that the expected value at the Drill Site of Lessee's share of production from the well or wells is sufficient to cover Lessee's cost of site preparation, drilling, completing, equipping, operating and producing such well(s), together with a reasonable return on investment.

(5) The term "adjacent lands" means land or lands within the limits of the City of Hermosa Beach which are not owned by the City.

j. The suspension of drilling operations by Lessee at the direction of the City or as a result of any other circumstance constituting a force majeure, except for the event of a default by Lessee under this Lease, shall extend the period or periods for the commencement of drilling, testing or undertaking any other activities to be conducted by or on behalf of Lessee as provided in this Section 12 for a period equivalent to the period of duration of such City-ordered suspension or other force majeure. This provision shall not be construed to extend the time for performance due to a default of the Lessee and allowing reasonable opportunity for Lessee to cure as provided in Section 20.

13. <u>TEMPORARY AND PERMANENT RELOCATION OF THE CITY MAINTENANCE YARD.</u>

a. Within ten (10) days of the execution of this Lease by all parties hereto and as a condition subsequent to this Lease

being in full force and effect, the Lessee shall deliver to the City the amount of Twenty-one Thousand Dollars ($21,000) in the form of cash or cashier's check payable to City, to pay for the reasonable cost of consulting services retained by the City, in its sole discretion, to analyze the relocation of the City maintenance yard (the "Yard") currently located on the Drill Site (the "City consulting costs"). Said amount for City consulting costs shall be part of the "Advance", as defined below, from Lessee to City and shall be repaid to Lessee in accordance with the terms and provisions of subsection 13.d.(4), below. Notwithstanding the provision in Section 12.b.(2) to the contrary, Lessee shall pay to City the amount as required and provided herein.

b. Within thirty (30) days of the execution of this Lease by all parties hereto, the City shall cause an environmental assessment of the Drill Site to be made to determine the extent and nature of contamination, if any, on the Drill Site. Such environmental assessment shall be undertaken in accordance with the following terms and conditions:

(1) Lessee and City shall equally share the cost to reasonably undertake such assessment. City's obligation under this Lease to Lessee shall be subject to Lessee's payment of its share of the cost of environmental assessment.

(2) City and Lessee shall fully cooperate with each other to determine the scope of services to be provided by the environmental consultant to assess the Drill Site.

(3) Prior to execution of a contract to engage the consultant to perform the environmental assessment, City shall deliver to Lessee a copy of the proposed contract for environmental assessment with a demand for payment of one-half of the contract amount. Within fifteen (15) days of Lessee's receipt of the proposed contract, Lessee may file with City written objections to said contract. Failure to submit such written objections within said time period shall be deemed an approval by Lessee of the contract and all of the terms and provisions thereto. If Lessee and City cannot agree as to the scope of services or the contract amount for environmental services, then Lessee shall pay its share of the disputed contract amount as provided herein, without prejudice and the parties hereto agree to arbitrate such dispute.

(4) Upon completion of the environmental assessment, City shall deliver a copy of the report and recommendations of the environmental consultant to Lessee.

c. Immediately upon termination of the Permit Phase and commencement of the Exploration Phase, or upon such earlier date as may be requested by Lessee in writing, the City shall temporarily relocate the entire Yard, or such portions of existing structures

now within the Yard, as mutually agreed in writing by the parties, to another location selected by the City within the time provided below in this Subsection so as to allow Lessee to conduct its operations on the Drill Site and not to unreasonably interfere with such operations. Lessee shall make available to the City funds up to a maximum amount of Seventy-five Thousand Dollars ($75,000) for the actual costs to undertake the temporary relocation of the Yard and the delivery of possession of the Drill Site in the condition agreed upon by the parties in writing. The parties hereto contemplate that the City will remove all Yard operations from the Drill Site except for City's continued use of the metal structure (i.e., the "Butler building"), which use shall not unreasonably interfere with Lessee's operations on the Drill Site. In addition, Lessee shall reimburse the City on a monthly basis for the actual amount of rent or other costs incurred by the City to temporarily obtain the use and occupancy of other lands for the Yard ("Rent Reimbursement") up to a maximum amount of Two Thousand Five Hundred Dollars ($2,500.00) per month. Such amounts as provided herein shall be a part of the "Advance" as defined hereinbelow.

(1) Subject to the payment by Lessee to City of funds as stated above, the City shall relocate the Yard, or such portion thereof, from the Drill Site property within sixty (60) days from the date the City is obligated to temporarily relocate the Yard as provided hereinabove. Such temporary relocation shall include the removal of an underground gasoline storage tank, disclosed by City and known to Lessee, and further include the clean-up and remediation of any contamination on the Drill Site, including without limitation, such contamination related to the removal of said underground tanks, if any.

(2) In the event that environmental clean-up and remediation costs (i.e., the costs for legally imposed environmental clean-up and remediation of the soil, exclusive of the costs for excavation and removal of the gasoline storage tank and any other costs for non-contamination clean-up of the Drill Site and temporary relocation therefrom) of the Drill Site are reasonably estimated to be in excess of $50,000 or upon City undertaking such environmental clean-up and remediation, City reasonably determines that actual costs will exceed $50,000, then City shall have the right to terminate this Lease without liability to Lessee subject to the provisions of Section 20.e. of this Lease.

(3) If the City has not obtained the right to use other lands for the purpose of temporary relocation at the time it is obligated to undertake the temporary relocation, said 60-day period in subsection (1) above, shall be extended for an additional sixty (60) days (i.e., a total of an one hundred twenty [120] day period to locate and secure the right to obtain lands for the temporary relocation of the Yard and to undertake and complete said relocation). Upon the close of the 60-day period or the 120-day

period to complete the temporary relocation, whichever is applicable, the City shall turn over and make the Drill Site available to Lessee in the condition and with those remaining structures as agreed in writing by the parties to this Lease relative to the temporary relocation of the Yard.

(4) City may secure a site for the temporary relocation of the Yard, or portions thereof, at any time after the Lease date and before the City is obligated to undertake such temporary relocation, and Lessee shall pay the Rent Reimbursement subject to the following: (i) City has conducted and received an environmental assessment report and issued written notice to Lessee, all of which is to be done within ninety (90) days of the Lease date, that City will proceed with environmental clean-up of the Drill Site in accordance with subsection (2) above; (ii) prior to approval by SLC of this Lease, Lessee shall be obligated to pay Rent Reimbursement for only a six (6) month period upon City evidencing to Lessee an executed rental agreement for the lease of temporary relocation facilities; (iii) after said six-month period and before SLC approval, City shall be obligated to pay such rental costs; and (iv) Lessee's obligation to pay Rent Reimbursement shall be revived and Lessee shall pay the Rent Reimbursement to City upon SLC's approval of the Lease.

(5) Lessee's obligation for Rent Reimbursement shall continue until: (i) ninety (90) days after receipt by the City of written notice from Lessee that the City should permanently relocate the Yard, or (ii) ninety (90) days from and after the date of commencement of the Development and Production Phase, or (iii) thirty (30) days after the date of termination of the Lease and delivery by Lessee of an executed quitclaim deed of the same in recordable form to the City, whichever occurs first.

d. Unless this Lease is terminated, the City shall have the right and obligation to permanently relocate the Yard upon the commencement of the Development and Production Phase in accordance with the time period provided in subsection c.(5) above. Simultaneously with the commencement of the Drilling and Production Phase, Lessee shall establish and fund an interest-bearing trust account in the amount of Five Hundred Thousand Dollars ($500,000.00) for advancing costs which will be experienced by the City to permanently relocate the Yard, and shall provide evidence satisfactory to the City that the trust has been established and fully funded.

(1) Lessee shall not have the right to undertake and proceed with the Development and Production Phase until said trust has been established and fully funded, and any delay by Lessee in accomplishing the same shall not extend the time for Lessee to commence any operations required by Section 12.

(2) The permanent relocation of the Yard shall obligate the City to undertake any additional environmental clean-up and remediation of the Drill Site with respect to the permanent relocation, which work shall be undertaken and completed by the City within ninety (90) days after commencement of the Drilling and Production Phase, but subject to the provisions in subsection c.(2) above.

(3) The City may withdraw funds from the trust from time to time to pay for any costs associated with the permanent relocation of the Yard, including, without limitation, the clean-up and remediation of the Drill Site to be undertaken in connection with the permanent relocation, up to the full amount of the trust.

(4) The cumulative amount of money caused to be withdrawn from the trust by the City for the permanent relocation of the Yard, plus the amounts as provided in Subsections 13.a., 13.c. and 20.e. herein shall constitute the "Advance" by Lessee to assist the City with the relocation of the Yard. The Advance shall be deemed a loan from Lessee to the City which shall accrue simple interest at the prime rate or twelve percent (12%) per annum, whichever is lower, commencing with respect to each separate withdrawal from the trust on the date the City caused such withdrawal to occur. The obligation to repay the Advance, together with accrued interest, shall not be deemed a general obligation of the City, and Lessee hereby expressly agrees that the sole source of repayment thereof shall be from royalty to be received by the City pursuant to the terms of this Lease. The parties further agree that the repayment of the Advance (and accrued interest thereon) shall be first from tidelands royalty to the extent permitted by law, and then from other royalty payable to the City, including the Minimum Royalty. The amount of such repayment shall be calculated based upon fifty percent (50%) of the total amount of royalty to be paid to the City under this Lease, which amount may be deducted by Lessee from the royalty payment which would otherwise be due to the City until the entire Advance, together with accrued interest, has been repaid. The royalty so deducted by Lessee shall first be applied to the payment of interest, with the remainder, if any, applied to the reduction of principal.

(5) In the event of termination of this Lease for any reason prior to recoupment by Lessee of the full amount of the Advance, together with accrued interest, the City shall promptly repay Lessee the remainder with interest calculated through the date of payment; provided, however, that in no event shall the City be liable to pay Lessee any amounts in excess of the amount which the City has actually received in royalties under this Lease.

(6) If the costs and expenses for the permanent relocation of the Yard exceed the amount in the trust to be established by Lessee hereinabove, Lessee shall have no obligation

to advance any further funds to assist the City with the permanent relocation, and the trust shall terminate upon the withdrawal by or on behalf of the City of all of the funds comprising the trust. Otherwise, the trust shall terminate and the remainder of the trust funds shall be paid to the Lessee upon written notice from the City that no further funds need be withdrawn from the trust to accomplish the permanent relocation.

14. SUBMISSION AND DISCLOSURE OF DATA

a. The Lessee shall promptly file with the City true copies of all geophysical data covering the leased lands and all logs (including electric and computer generated logs), survey, drilling records, well histories, core records, formation tests and related information as measured and recorded in the course of drilling, for the wells drilled into the leased lands. All data and information filed by the Lessee with the Division of Oil and Gas in connection with this lease, whether or not held in confidential status by the Division of Oil and Gas, shall be submitted to the City for its use in enforcing compliance with the terms of this Lease and regulations of the City.

b. All data and information supplied in confidence by the Lessee under this Section 14 shall be kept confidential by the City and shall not be disclosed to any person or agency without the written consent of the Lessee or unless their disclosure is required by law. Notwithstanding the above, the City may disclose any data or information filed by the Lessee to any governmental agency needing the data or information to regulate the leased lands or adjacent lands, provided that the disclosure is made pursuant to an agreement with the governmental agency specifying the purposes for which the data and information may be used and requiring the data and information to be kept confidential, and that notice is given to the Lessee of the nature of the information and data that are disclosed, the governmental agency to which they are disclosed and the purposes of their disclosure.

15. COMPLIANCE WITH LAWS AND OTHER OPERATIONAL CONTROLS

a. The Lessee shall comply with all laws, rules and regulations of the United States, of the State of California and its political subdivisions, and of the City of Hermosa Beach applicable to the Lessee's operations, including, but not limited to, the applicable provisions of Divisions 3 and 6 of the Public Resources Code and the regulations of the Division of Oil and Gas and State Lands Commission. The Lessee shall also comply with any special operating requirements set forth in a conditional use permit issued by the City.

b. The Lessee shall also apply for and obtain all necessary drilling and well permits from the City of Hermosa Beach

pursuant to the Hermosa Beach Municipal Code. As part of this process, Lessee shall pay for all normal charges and costs paid by applicants in processing said permits, including the payment of all costs associated with the preparation of any and all subsequent or supplemental environmental impact reports or other environmental documentation which may be required prior to approval of the City permits. The parties hereto acknowledge that an Environmental Impact Report has been approved and certified by the City on May 8, 1990 for project contemplated under the Lease. The Lessee shall also be responsible, at its sole expense, for all necessary permits and approvals to be obtained from the California Coastal Commission. The Lessee shall also pay all business license fees and comply with all ordinances, rules and regulations established by the City.

c. The Lessee is aware that the City of Hermosa Beach does not own any rights, easements or covenants allowing the Lessee to drill from the authorized Drill Site to the tidelands. The Lessee shall obtain such rights so as to be able to drill from the said Drill Site. If this Lease has not terminated prior to the Drilling and Production Phase, then at the end of the Term, Lessee shall assign its obtained pass-through rights to City without warranty of title, to the full extent it has the legal right to do so.

16. UNITIZATION

Subject to the requirements of Public Resources Code §6879, City and Lessee may mutually determine to combine, pool or unitize the leased lands with other lands not subject to this Lease and lying within the jurisdiction of the City to insure that the ultimate recovery of oil or gas will be increased, or that oil or gas will be protected from unreasonable waste, or that subsidence of the leased lands or abutting lands may be arrested or ameliorated. The City and Lessee may enter into agreements to unite with others owning or operating lands not belonging to the City, including lands belonging to the State of California and the United States, in operating under a cooperative or unit plan of development or operation for the pool or field or any part thereof.

Such agreements may establish, change or revoke any drilling and production requirements of this Lease, may permit apportionment of production, and may make such regulations concerning the institution and operation of any cooperative or unit plan that the parties deem necessary or proper for the protection of their interests. Each such agreement shall provide that any impairment of the public trust for commerce, navigation or fisheries to which the leased lands are subject is prohibited.

In the event of the occurrence of subsidence of the leased lands or abutting lands, the parties hereto agree to unitize within

one (1) year from the occurrence of such in order to arrest or ameliorate such subsidence.

17. PREVENTION OF WASTE

The Lessee shall use all reasonable precautions to prevent waste of oil and gas in the leased lands and to prevent the entrance of water through wells drilled to the oil or gas-bearing strata that may damage or destroy the oil or gas deposits.

18. LIABILITY, INSURANCE AND INDEMNIFICATION

a. The Lessee shall be liable to the City for all damage to any reservoir underlying the leased lands and any loss of oil, gas or other hydrocarbon substances to the extent that they are caused by a breach of any provisions of this Lease, whether such breach occurs either through negligence of the Lessee or by intentional violation of the express terms of any provision of this Lease, or by non-compliance with any applicable statutes or regulations by the Lessee, its employees, servants, agents or contractors. Nothing in this Lease shall diminish any other rights or remedies which the City may have in connection with any such breach.

b. Prior to the commencement of any operations, the Lessee shall submit to the City an Insurance policy or Certificate of Insurance which shows that the Lessee is insured against damages to third persons and their property resulting or arising from injuries to persons and/or property caused by Lessee's operations under this Lease. The exact type and extent of coverage to be provided by Lessee is attached hereto as Exhibit "C" and made a part hereof by reference. Said insurance shall be in an amount not less than Five Million Dollars ($5,000,000.00) for each occurrence. Said insurance shall name the City as an additional insured and shall further provide that Lessee's insurance shall be primary for losses arising out of or from Lessee's performance under the Lease and that neither the City nor any of its insurers shall be required to contribute to any such loss. Lessee shall be obligated to maintain such insurance throughout the Term of this Lease; provided however, that in the event all or any part of such insurance is not reasonably available, then Lessee shall provide an equivalent substitute for such insurance coverage as provided below in subsection (2).

(1) All policies or certificates issued by the respective insurers of Lessee shall provide that such policies or certificates shall not be canceled or materially changed without at least thirty (30) days prior written notice to the City. Lessee shall prepay in full each annual premium amount and copies of such policies or certificates shall be deposited with the City, together with appropriate evidence of payment of the premiums therefore. At

least forty-five (45) days prior to the expiration dates of expiring policies or certificates, copies of renewal or new policies or certificates shall be deposited with the City.

(2) In the event that Lessee is unable to obtain all or any type of coverage or equivalent coverage as provided in Exhibit "C," then Lessee shall be obligated to self-insure for such lack of coverage. The amount of such self-insurance (the "self-insured amount") shall be calculated based upon the relationship that such lost insurance coverage has to the premium cost for all required insurance coverage. By way of example, if the lost coverage represents 20% of the premium cost, then the Lessee shall be obligated to self-insure for $1,000,000.

(a) Until such time as the Emergency Trust Fund, as provided below, reaches $4,000,000 of Lessee's contributions to said Fund, Lessee shall secure such self-insurance by delivering to the City either cash, a standby letter of credit or a security interest in an asset of Lessee with the unencumbered, equivalent value of the self-insured amount.

(b) At such time as the Emergency Trust Fund reaches $4,000,000 of Lessee's contributions to said Fund, then City shall release Lessee's cash, or letter of credit or security interest for the self-insured amount and Lessee shall be obligated to continue to contribute to the Emergency Trust Fund until such time as said Fund, including accumulated interest, reaches the self-insured amount.

c. The Lessee shall indemnify the City of Hermosa Beach, its officers, agents and employees against all claims, demands, causes of action or liabilities of any kind which may be asserted against or imposed upon the City of Hermosa Beach, its officers, agents or employees, by any third person or entity arising out of or connected with the issuance of this Lease, operations hereunder, repayment or the use by the Lessee, its agents, employees or contractors of the leased lands and the Drill Site; except only for the following situations: (i) that City shall be liable for one-half (1/2) the costs to defend an action, claim or proceeding which contests the right of City to use non-tidelands restricted revenues received pursuant to this Lease to repay the Advance for the temporary or permanent relocation of the City maintenance yard operations or other costs of City related to the preparation of this Lease and the Drill Site; and (ii) the City shall be solely responsible to defend any action, claim or proceeding brought by the State of California against the City related to the terms of the grant of the tidelands to the City and the City's use of proceeds of royalty from the tidelands. These provisions shall not be construed to mean that the City is in any way required to reimburse Lessee for its costs in defending any such claim, action or proceeding as a real party in interest.

Upon the execution of this Lease by the City and prior to commencement of any drilling operations by Lessee, Lessee shall execute and deliver to the City an indemnification agreement in conformance with the form of Indemnification Agreement attached hereto as Exhibit "D" and made a part hereof by reference.

d. Lessee and City hereby agree to establish an emergency trust fund (the "Emergency Trust Fund") for the sole purpose of providing funds to remedy the occurrence of any condition of third party liability or contamination, hazard, pollution, subsidence or abandonment which may arise out of or be related to the operations of the Lessee under this Lease and which occurrence is not covered by Lessee's insurance coverage as provided in subsection b. above.

(1) Said Emergency Trust Fund shall be established by a sinking fund, to which both parties shall contribute up to an aggregate amount of Six Million Dollars ($6,000,000) to be accumulated, including accrued and compounded interest, by Year 10 after the commencement of the obligation of the parties to contribute to the Emergency Trust Fund as provided hereinbelow.

(2) The Lessee shall contribute, after payout to Lessee but in no event later than four (4) years after the commencement of the Development and Production Phase, to the Emergency Trust Fund the amount of five percent (5.0%) of net profits received by Lessee each month until such time as Lessee's contribution, including the prorata accrued and compounded interest, reaches the amount of Four Million Dollars ($4,000,000). For purposes of this Lease, "net profits received by Lessee each month" shall mean the gross revenues received by Lessee from operations at the Drill Site during that month (i.e., all revenues attributable to the sale of Lessee's share of production from the leased lands and adjacent lands during the month), less the operating costs incurred by Lessee to conduct all such operations during that month. Lessee's costs of operation shall be determined in accordance with the COPAS Accounting Procedure attached hereto as Exhibit "F" and made a part hereof by reference. Similarly, for purposes of this Lease, "payout to Lessee" shall mean the first day of the month following the month during which the cumulative total of the net profits received by Lessee each month is equal to all costs incurred by Lessee at any time for (i) acquiring oil and gas leases covering the leased lands and adjacent lands, (ii) obtaining all permits, approvals and other governmental authorizations necessary for Lessee to conduct operations from the Drill Site into leased lands and adjacent lands, (iii) establishing a temporary drill site at the Drill Site, including environmental remediation costs which Lessee agrees to pay or is otherwise obligated to pay under the terms of this Lease, (iv) establishing a permanent drill site at the Drill Site, including environmental remediation costs which Lessee agrees to pay or is otherwise obligated to pay under

this Lease, and (v) drilling, redrilling, reworking and recompleting all wells drilled from the Drill Site.

(3) The City shall contribute, after payout to City but in no event later than four (4) years from the commencement of City's receipt of royalty payments other than the Minimum Royalty, to the Emergency Trust Fund the amount of five percent (5.0%) of net restricted royalties received by City each month pursuant to the terms of this Lease, until such time as City's contribution, including the prorata accrued and compounded interest, reaches the amount of Two Million Dollars ($2,000,000). For purposes of this Lease, "payout to City" shall mean the recovery by City of its costs in undertaking and entering into this Lease and "net restricted royalties" shall mean restricted royalty to City after first paying the Advance and Additional Advance.

(4) Said respective contributions to be paid by each party hereto for any month shall be paid into the Emergency Trust Fund on or before thirty (30) days after the end of that month. Said Emergency Trust Fund shall be interest bearing with all interest accrued applied to the Emergency Trust Fund. Both the City and Lessee shall be named beneficiaries of said Fund which shall be administered by an independent third party, mutually acceptable to the parties, as trustee. So long as the purposes for the Trust Fund exist, the Trust Fund shall remain in effect and be used only for such purposes. The trustee shall release a pro rata share of principal plus accrued interest to each respective party upon the termination of the trust purposes.

19. <u>OPERATIONAL STANDARDS</u>

a. The Lessee shall exercise reasonable diligence in the operation of the wells while their products can be obtained in paying quantities and shall not unreasonably or unnecessarily suspend operations. All operations shall be conducted in a proper and workerlike manner, in accordance with generally accepted good oil field practices and with regard for the protection of the safety and health of workers and the adjoining and adjacent community.

b. Lessee shall have the right hereunder to conduct operations by methods now known or unknown for the purpose of benefitting or facilitating the drilling for or production of oil, gas and other hydrocarbons by or through a well or wells in the leased lands and/or the adjacent lands together with the right to drill wells or use existing wells for the purpose of injecting into said lands, water or other substances produced from the leased land or other lands.

20. CANCELLATION AND TERMINATION

a. Except for the period of the Primary term as specifically provided in Section 1.c., if the Lessee fails to exercise due diligence and care in the prosecution of the exploratory or production work in accordance with the terms and conditions of this Lease and if such default continues after thirty (30) days' written notice to the Lessee and Lessee fails to cure or commence to cure and diligently pursue to complete the cure thereafter, the City may cancel this Lease. Any action taken by Lessee, such as contractual obligation for remedial work necessary to correct the specified default, the assembly of equipment and the like for such purpose, if initiated in good faith and diligently pursued, shall constitute commencement to cure such default as said term is used in the preceding sentence. In the event of cancellation, the Lessee shall have the right to retain any drilling or producing wells as to which no default exists, together with the minimum acreage around any such wells required to comply with the well spacing requirements as provided in Section 12 above and those rights of way into or through the leased lands that are reasonably necessary to enable the Lessee to drill and operate any such wells.

b. In the event that the cause of Lessee's default is failure to pay the Minimum Royalty as provided in Section 2, above, the City may terminate this Lease upon fifteen (15) days written notice to Lessee and Lessee shall immediately surrender all leased lands and the Drill Site to City.

c. In the event that the cause of Lessee's default is failure to pay royalty, other than Minimum Royalty, as provided in Section 3 above, the City may terminate this Lease upon thirty (30) days written notice to Lessee and the Lessee shall immediately surrender all leased lands and the Drill Site to City. In the event of a legitimate dispute as to the amount of royalty to be paid to City pursuant to the terms of this Lease, then upon Lessee's payment to City of the amount not in dispute, this Lease shall continue in force and effect and the parties hereby agree to arbitrate the amount in dispute unless otherwise provided in this Lease.

d. In the event that this Lease is not approved by the State Lands Commission with respect to the production of oil from the tidelands, then this Lease shall terminate and the Uplands Lease as amended, shall be reinstated and be deemed to be in full force and effect. Under the terms of termination as provided in this subsection, the parties hereto agree that the Primary term under the Uplands Lease shall be for a period of one (1) year commencing upon the effective date of the reinstatement of the Uplands Lease.

e. The City's right to terminate this Lease as a result of environmental clean-up and remediation costs exceeding an initial amount of $50,000, shall be subject to Lessee agreeing in writing to assume and pay such excess costs up to an additional amount not to exceed $50,000. Said payment by Lessee of said excess costs shall not be a recoverable cost by Lessee. In the event that Lessee determines not to assume such excess costs, then this Lease shall terminate.

Should the total cost of clean-up and remediation exceed the amount of $100,000, Lessee shall have the option to further advance such additional amounts above the aggregate $100,000 as necessary to complete the clean-up and remediation of the Drill Site. Such payment by Lessee of environmental clean-up costs in excess of $100,000 shall be deemed a part of the Advance as provided in Section 13.c.(4). In the event Lessee, in its sole discretion, determines not to fund excess clean-up costs over the aggregate $100,000, then this Lease shall terminate.

The parties hereto expressly agree that Lessee shall have the right to discontinue funding for clean-up and remediation activities at any time. In such event, Lessee shall terminate this Lease and return possession of the Drill Site to the City without further liability for clean-up and remediation, if Lessee determines, in its sole discretion, that the cost of such clean-up and remediation makes the project economically infeasible to continue.

f. In the event of any termination of this Lease in whole or in part, the Lessee shall have a reasonable time to remove any personal property, equipment and facilities used by the Lessee in operations under the terminated portion of this Lease and shall after removal and at no cost to the City, return the land to the City in a clean, cleared and suitable condition for reuse.

21. SUSPENSION OF OPERATIONS

a. The City may temporarily suspend production or any other operation by the Lessee under this Lease whenever the City finds that the operation, unless suspended, would pose an immediate and serious threat to life, health, property or natural resources. The suspension shall be effective immediately upon either oral or written notice given in writing by the City Manager or his designee to the Lessee. Any oral notice shall be followed by written confirmation within ten (10) days from the City. The City shall lift the suspension when the City finds, on the basis of evidence submitted by the Lessee or otherwise available, that resumption of the suspended operation or operations would no longer pose an immediate and serious threat to life, health, property or natural resources. If the City orders suspension of operations because their continuation would cause or aggravate subsidence in the

leased lands or other properties, the operations shall be resumed only in compliance with a City approved program for subsidence prevention.

b. Upon the written request of the Lessee the City may temporarily suspend production or any other operation by the Lessee under this Lease if the City determines, from evidence submitted by the Lessee or otherwise available, that such suspension will facilitate the assignment or unitization of this Lease, will allow for negotiation for the use of hydrocarbon transportation facilities, will prevent waste of oil or gas, will provide time for compliance with federal, state or local statutes or regulations, will allow for remedying the effects of acts of God, or will otherwise facilitate the proper development of the Leased lands. Such suspension shall be on terms and conditions provided by the City and shall be terminated whenever the City finds that the conditions warranting the suspension no longer exist. During any such period of suspension, the Lessee shall immediately inform the City of any change in the conditions warranting suspension.

c. The suspensions of operations provided for in this Section 21 shall be in addition to, not in derogation of, any other provisions for suspension of operations provided in this Lease. No suspension ordered or approved under this Section 21 shall relieve the Lessee from any obligation under this Lease unless specifically provided in the terms of the suspension. However, any suspension under this Section 21 ordered or approved during the Primary term, shall stop the running of the Primary term during the period of suspension.

22. POLLUTION AND CONTAMINATION OF WATERS PROHIBITED

a. Pollution and contamination of City waters, impairment of and interference with bathing, fishing or navigation in City waters, and impairment of and interference with developed shoreline recreational or residential areas are prohibited. No oil, tar, residuary product of oil or any refuse of any kind from any well or works shall be deposited on or allowed to pass into City waters. If any refuse capable of snagging or otherwise interfering with any type of fishing gear is deposited on or allowed to pass into City waters, the Lessee shall promptly report the incident to the City and submit to the City a map showing the exact location of the refuse.

b. The permission given in section 6873(b) of the Public Resources Code for the deposit in state waters of water not containing any hydrocarbons or vegetable or animal matter and drill cuttings and drilling mud which are free of oil and materials that are deleterious to marine life, shall not supersede any restrictions on the deposit of such substances which are contained in this Lease.

23. BONDS

a. The Lessee shall furnish upon execution of this Lease and maintain a bond in favor of the City of Hermosa Beach in the sum of One Hundred Thousand Dollars ($100,000) to guarantee the faithful performance by the Lessee of all provisions of this Lease, Division 6 of the Public Resources Code and the regulations promulgated thereunder, including, but not limited to, immediate elimination of any contamination or pollution or discharge or release of hazardous materials caused by or resulting from operations under this Lease.

b. All bonds shall require the surety to give at least ninety (90) days written notice of its intention to cease acting as guarantor. If a surety gives notice of its intention to cease acting as guarantor, the Lessee shall provide to the City within sixty (60) days of such notice a replacement bond of equal value to become effective upon the expiration of the existing bond. Failure to provide such a replacement bond within the required time shall constitute a default entitling the City to levy against the entire amount of the existing bond.

c. The City shall release the bonds and Lessee's obligation to provide said bonds, as required under this Section, at such time as the Lessee's proportionate share of the Emergency Trust Fund exceeds twice the amount of the bonds.

24. ASSIGNMENT OR TRANSFER OF LEASE

a. Subject to approval by the City, which approval shall not be unreasonably withheld, this Lease may be assigned, transferred or sublet to any person, association of persons or corporation who at the time of the proposed assignment, transfer or sublease possesses the qualifications provided in Section 6801 of the Public Resources Code. Any assignment, transfer or sublease may involve all or any part of the leased lands or any separate or distinct zone or geological horizon or portion of such zone or horizon. Any assignment, transfer or sublease shall take effect on the first day of the month following its approval by the City and the filing with the City of an executed counterpart thereof, together with any required bond and proof of the qualifications of the assignee, transferee or sublessee to hold this Lease or any interest in it. Unless approved by the City, no assignment, transfer or sublease shall be of any effect. Upon approval of any assignment, transfer or sublease, the assignee, transferee or sublessee shall be bound by the terms of this Lease to the same extent as if such assignee, transferee or sublessee were the original lessee, any conditions in the assignment, transfer or sublease to the contrary notwithstanding.

b. Any assignment or transfer of a separate portion of this Lease or of a separate or distinct zone or geological horizon, or portion thereof, shall segregate the assigned or transferred portion from the retained portion. The approval of the assignment or transfer shall release the assignor or transferor from all obligations thereafter accruing under this Lease with respect to the assigned or transferred lands or zones or horizons. The Lease on any segregated portion of the lands or zones or horizons shall continue in force for two (2) years after the date of City approval of the assignment and so long thereafter as oil or gas is produced in paying quantities from such segregated portion.

c. With the approval of the City, which approval shall not be unreasonably delayed or withheld, assignments or transfers may be made of parts of this Lease which are on their extended term because of production. The Lease on any segregated portion containing only undeveloped lands or zones or horizons shall continue in force for two (2) years and so long thereafter as oil or gas is produced in paying quantities from such segregated portion.

25. QUITCLAIM

The Lessee may at any time make a written quitclaim of all rights under this Lease or of any portion of the leased lands comprising a ten-acre parcel or multiple thereof in a compact form, or of any separate or distinct zone or geological horizon or portion thereof underlying a ten-acre parcel of multiple thereof in a compact form. The quitclaim shall be effective when it is filed with the City subject to the continued obligation of the Lessee to pay all accrued royalties and to abandon all wells drilled into the leased lands or in the zones or horizons to be quitclaimed in accordance with the terms of this Lease and the regulations of the City. At the option of the City, the Lessee may be required to place all such wells in condition for suspension instead of abandoning them. In the event of suspension, the City shall have the option to operate or cause the operation of such wells. The Lessee shall then be released from all drilling and other obligations thereafter accruing under the Lease with respect to the lands, zones or horizons quitclaimed. However, the quitclaim shall not release the Lessee or its surety from any liability for breach of any obligation of this Lease with respect to which the Lessee is in default at the time of the filing of the quitclaim, except for the liability or obligation to conduct drilling or production operations on or with respect to the quitclaimed lands.

26. SURRENDER OF LEASED LANDS

At the expiration of this Lease or upon its sooner quitclaim or termination, the Lessee shall surrender the leased lands and the Drill Site and all improvements on them in good condition, or the

City may provide that the Lessee shall remove some or all of the structures and other fixtures placed upon the Drill Site and transfer to City, in whole or in part, the Drill Site in a clean, cleared and suitable condition for reuse at no cost to the City. The Lessee shall not be denied the right to remove any drilling, development and production equipment having a reuse or salvage value, provided that in the event the City exercises its option to operate any well, as provided in Section 25, above, the City shall have the right to purchase said drilling, development and production equipment at salvage value.

27. RESERVATIONS TO CITY

The City reserves the right to grant, upon its own terms, joint or several easements or rights of way upon, through or in the leased lands as may be necessary or appropriate and consistent with the Lease, and the right to allow, upon its own terms, the continued use of any existing easement or right of way upon, through or in the leased lands. The City also reserves the right to lease, sell or otherwise dispose of whatever transferable interest it may have in the surface of the leased lands, subject to the reasonable use by the Lessee of the surface for Lease operations if surface use is allowed by the terms of this Lease. Any such easements or encumbrances on the Drill Site shall not unreasonably interfere with the operations of the Lessee.

28. BANKRUPTCY

If at any time a filing is made by or against the Lessee under the bankruptcy laws of the United States, the City shall have the right to take any action consistent with the bankruptcy laws to protect its interests in this Lease.

29. FAILURE TO ENFORCE

The failure of either party to enforce any provision of this Lease, which includes the exhibits, shall not constitute a waiver by either party of that or any other provision or of any subsequent breach by the either party.

30. ENFORCED DELAY; EXTENSION OF TIME TO PERFORM

Notwithstanding specific provisions of this Lease, performance by either party hereunder shall not be deemed to be in default where delays or defaults are due to war; insurrection; strikes; lock-outs; labor disputes; riots; floods; earthquakes; fires; casualties; acts of God; action of the elements; acts of the public enemy; epidemics; quarantine restrictions; freight embargoes; lack of transportation; governmental restrictions or priority; litigation including litigation challenging the validity of this transaction or any element thereof; unusually severe weather;

inability to secure necessary labor, materials or tools; acts of the other party; acts or failure to act of any other public or governmental agency or entity including the City; or any other causes beyond the control or without the fault of the party claiming an extension of time to perform. An extension of time for any such cause shall be for the period of the enforced delay and shall commence to run from the time of the commencement of the cause, if notice by the party claiming such extension is sent to the other party within thirty (30) days of the commencement of the cause. Times of performance under this Lease may also be extended in writing by the City and the Lessee.

31. APPLICABLE LAW AND LEGAL ACTIONS

a. This Lease shall be interpreted and construed under the laws of the State of California.

b. GLG Energy, L.P., which together with Windward Associates comprises the Lessee, hereby agrees to submit to California jurisdiction. In the event that any legal action is commenced by City against the Lessee, service of process on the Lessee shall be made by personal service on the Operator and by mailing a copy to each member which comprises Lessee, by certified mail, return receipt.

32. SEVERABILITY

In the event any provision of this Lease is held, found or determined by a competent court to be invalid and unenforceable for any reason whatsoever, the remaining provisions shall remain in full force and effect, and the parties shall take further actions as may be reasonably necessary and available to them to effectuate the intent of the parties as to all provisions set forth in the Lease.

33. DUTY TO DISCLOSE

Lessee acknowledges that it may be required to make certain disclosures to the City, its staff or legal counsel of Lessee's officers, stockholders or partners, and any requested information deemed pertinent by the City concerning the Lessee and its associates and agents. Lessee further acknowledges that it may be required to make full disclosure to the City of the methods of financing to be used by Lessee in undertaking and developing the leased lands. Lessee agrees to make available any information reasonably requested by the City related to this Lease and Lessee's ability to perform under this Lease.

34. ENTIRE AGREEMENT

This Lease constitutes the entire, complete and final agreement between the parties and shall not be amended except by written agreement of the parties.

IN WITNESS WHEREOF, the undersigned parties have executed this Oil and Gas Lease No. 2 effective as of the day and year first written above.

"Lessee"

Windward Associates, a California limited partnership

By: _____

PRESIDENT MACPHERSON OIL COMPANY
(Title) GENERAL PARTNER

GLG Energy, L.P., a limited partnership

By: _____

President GLG Energy Inc
(Title) General Partner

"City"

City of Hermosa Beach, a California municipal corporation

By: Kathleen Midstokke
Mayor

Attest:

Elaine Doerfling
City Clerk

Approved as to Form:
City Attorney

By _____

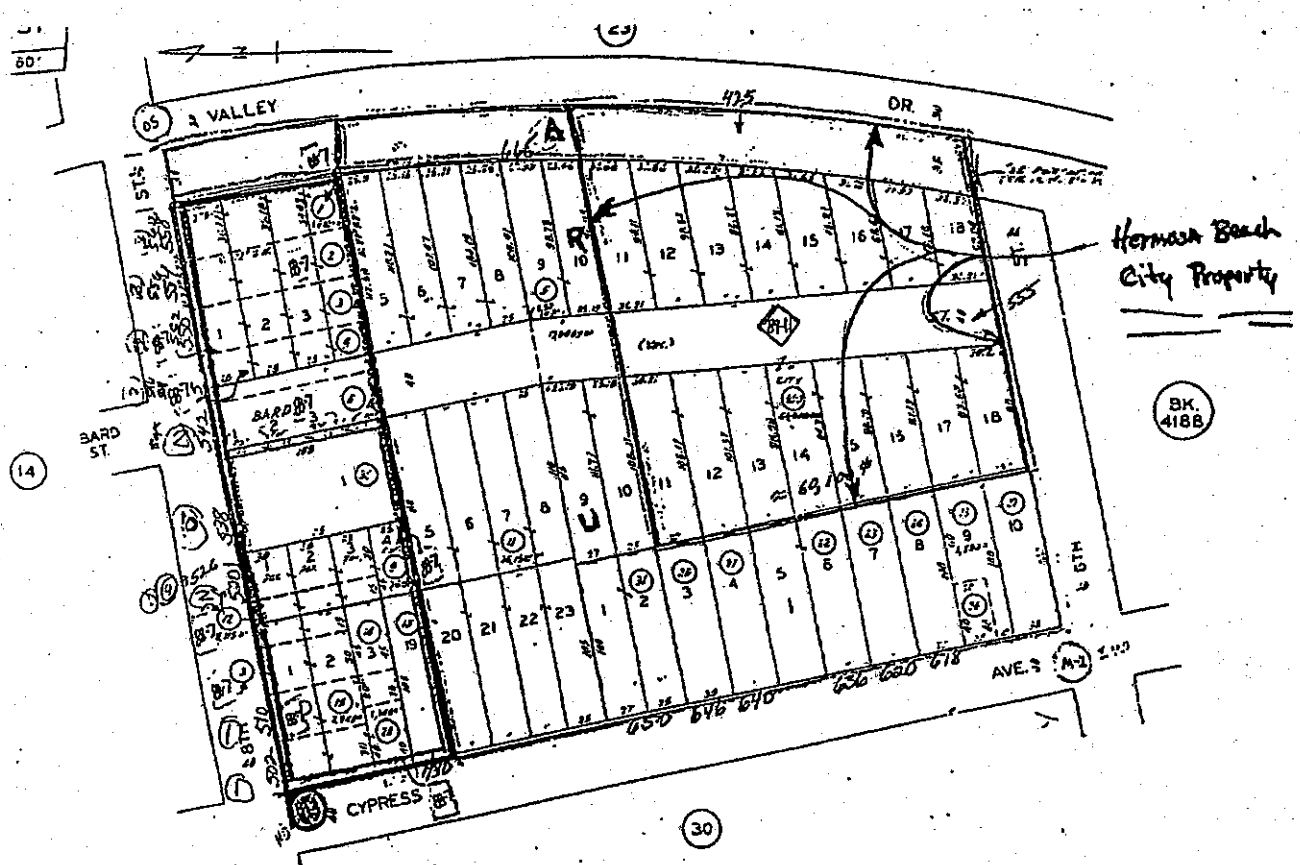
EXHIBIT "A"
PROPERTY DESCRIPTION

A. Description of Tide and Submerged Lands. All tide and submerged lands within the present boundaries of the City of Hermosa Beach situated below the line of the mean high tide of the Pacific Ocean and extending seaward one (1) nautical mile.

B. Description of the Uplands. All of that certain strip of land in the County of Los Angeles, California, lying and being between the ocean front lot line as shown in the original plat of the City of Hermosa Beach (said ocean front lot line being the same as the west property line of all lots facing the ocean) and the line of high tide, and between the North and South lines produced of Hermosa Beach as per map thereof recorded in the office of the County Recorder of Los Angeles, California, in Book One (1) of Maps at Pages 25 and 26, together with all other lands owned by the City of Hermosa Beach and within the boundaries of said City, below a depth of five hundred (500) feet from the surface thereof.

C. Description of the Drill Site. The Drill Site is located on the property known as the "City Maintenance Yard", as shown on the Drill Site Map and as more specifically described as follows: Lots 11 through 18 of Block R; Lots 11 through 18 of Block U; the vacated portion of Bard Street between the easterly prolongation of the northerly line of Lot 11, Block U and the northerly right-of-way line of 6th Street; and the vacated portion of Lot A between the easterly prolongation of the southerly line of Lot 18, Block R; Tract 2002 as recorded in Book 22 Maps, at Pages 154-155, Records of Los Angeles County.

EXHIBIT "A"
CITY MAINTENANCE YARD



CODE 4340

TRACT NO. 1677 M.B. 20-184
TRACT NO. 1686 M.B. 20-188
TRACT NO. 2002 M.B. 22-154-155
CONDOMINIUM
TRACT NO. 31680 M.B. 865-72-73

FOR PREV. ASSMT SEE:

ASSES
COUNTY OF LO

C 00443

EXHIBIT "B"

ROYALTY PERCENTAGE

1. UPLANDS ROYALTY PERCENTAGE

The royalty for oil, gas and other hydrocarbon substances resulting from the leased lands owned by the City above the mean high tide line of the ocean (the "uplands") which Lessee shall pay to City shall be as follows:

(a) Eleven and two-thirds per cent (11-2/3%) of all oil, gas and other hydrocarbon substances, excepting gasoline and other liquid products extracted from gas produced, saved and sold from the uplands;

(b) Eleven and two-thirds per cent (11-2/3%) of fifty per cent (50%) of all gasoline and other liquid products extracted from gas produced, saved and sold from the uplands;

(c) Seven percent (7%) of all oil, gas and other hydrocarbon substances, excepting gasoline extracted from gas, produced, saved and sold from the uplands for the granting of the use of the Drill Site.

(d) Seven percent (7%) of all oil, gas and other hydrocarbon substances, excepting gasoline extracted from gas, produced, saved and sold from lands other than those owned by the City and recovered by wells drilled from the Drill Site;

(e) Seven percent (7%) of fifty percent (50%) of all gasoline extracted from gas produced, saved and sold from the uplands;

(f) Seven percent (7%) of fifty percent (50%) of all gasoline extracted from gas produced , saved and sold from lands other than those owned by the City and recovered by wells drilled from the Drill Site.

2. TIDELANDS ROYALTY PERCENTAGE

The royalty for oil, gas and other hydrocarbon substances resulting from the leased lands in the tidelands (i.e., all tide and submerged lands within the present boundaries of the City of Hermosa Beach situated below the line of the mean high tide of the Pacific Ocean and extending seaward one (1) nautical) which Lessee shall pay to City shall be as follows:

(a) Eighteen and two-thirds per cent (18-2/3%) of all oil, gas and other hydrocarbon substances, excepting gasoline extracted from gas produced, saved and sold from the tidelands;

(b) Eighteen and two-thirds per cent (18-2/3%) of fifty per cent (50%) of all gasoline extracted from gas produced, saved and sold from the tidelands.

Royalty and/or money from royalty shall be divided between the Special Tidelands Trust Fund and the City's general fund as follows:

(i) A share of the royalty or money equal to thirty-seven and one-half percent (37.5%) to the City's general fund as consideration for furnishing the Drill Site;

(ii) A share of the royalty or money equal to sixty-two and one-half percent (62.5%) to the Special Tidelands Trust Fund.

EXHIBIT "C

INSURANCE REQUIREMENTS

Operator shall carry or provide, or cause to be carried or provided, the following insurance for the benefit of City and Lessee:

(a) Worker's compensation insurance in accordance with the requirement of the laws of the State of California and employer's liability insurance with limitations of not less than $100,000 each occurrence, and $100,000 aggregate for disease.

(b) Comprehensive general liability insurance with limits of not less than $1,000,000 for any one person injured in any one accident, not less than $1,000,000 for more than one person injured in any one accident, and not less than $1,000,000 for property damage for any one accident, and not less than $1,000,000 for property damage each year.

(c) Automobile public liability and property damage insurance with limits of not less than $1,000,000 covering injury to or death of one person and not less than $1,000,000 for any one occurrence, and not less than $1,000,000 covering property of third persons.

(d) Well control insurance during all drilling and remedial down-hole well operations with a combined single limit of not less than $1,000,000 per occurrence for bodily injury and property damage.

(e) Umbrella liability insurance of not less than $4,000,000 per occurrence, such insurance to cover all risks in excess of the primary insurance referred to in items (b), (c) and (d) above.

Each drilling or other contractor performing work for the joint account shall be required to maintain in force, with respect to the work performed by such contractor, to the extent applicable and possible, the same insurance as specified above.

Exhibit "D"

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is entered into this 14TH day of January, 1992, by and between the City of Hermosa Beach, a municipal corporation (the "City") and Windward Associates, a California limited partnership and GLG Energy, L.P., a limited partnership (herein together the "Lessee").

RECITALS

A. The City and Lessee have entered into that certain lease for drilling activities, the Oil and Gas Lease No. 2, dated _____ _____, 1991 (the "Lease"), into and through the leased and adjacent lands (altogether the "Property") as described in the Lease.

B. The Lease provides that the City will provide to Lessee the use of the Drill Site, which is the only location in the City authorized by a vote of the people for both uplands and tidelands oil drilling activities.

C. The Lease provides that the Lessee shall indemnify and hold the City harmless from and against any and all claims, demands, causes of action or liability which arises out of or connected with Lessee's performance under the Lease.

D. The parties hereto desire to clarify and define each party's obligation to so indemnify and hold the other party harmless.

NOW THEREFORE, Lessee, jointly and severally, and the City agree as follows:

1. General Intent and Purpose.

It is the intent of the parties to this Agreement that Lessee indemnify City against environmental costs and liabilities arising from or caused as a result of any of Lessee's activities under the Lease. Likewise, it is the intent of the parties that the City indemnify Lessee against environmental costs and liabilities arising as a result of any uses of the Drill Site prior to Lessee's actual possession under the Lease or from any future uses of the Drill Site unrelated to Lessee or its activities under the Lease.

2. Indemnification.

(a) Lessee shall protect, defend, indemnify, and hold harmless City, its assigns and their respective officers,

directors, and employees, and their respective heirs, legal representatives, successors, and assigns from and against: (i) all liabilities, losses, costs, damages (including all reasonably foreseeable consequential damages), penalties, fines, defense costs and disbursements(including without limitation, reasonable attorneys' and experts' fees), judgements, suits, proceedings, expenses or claims, including, but not limited to, remediation, removal, response, abatement, cleanup, legal, investigative, and monitoring costs of any nature whatsoever (collectively "Costs and Liabilities"); and (ii) which may at any time be imposed upon City, or be incurred by City (directly or indirectly); and (iii) which Costs and Liabilities arise from any act or activity of Lessee on or conducted from the Drill Site; and (iv) which arise: (A) from Requirements of Environmental Law; (B) with respect to Environmental Claims related to actions of Lessee under the Lease; (C) from the failure or alleged failure of Lessee or any contractor, subcontractor, employee, licensee, representative, guest, invitee or agent of Lessee, to obtain, maintain, or comply with any required Environmental Permit; and/or (D) from the release or alleged release of either oil and/or gas as defined in Section 3006 and 3007, respectively, of the California Pubic Resources Code or Hazardous Materials on, under or from the Property or Drill Site, including but not limited to soil, groundwater or soil vapor, or the migration, spreading, alleged migration, or alleged spreading of oil and/or gas or Hazardous Materials from the Drill Site or related to Lessee activities therefrom, whether known to Lessee, whether foreseeable or unforeseeable.

(b) Subject to the provisions of Sections 13.b.(2) and 20.e. of the Lease, City shall protect, defend, indemnify and hold harmless Lessee, its agents, and their respective officers, directors, and employees, and their respective heirs, legal representatives, successors and assigns from and against: (i) all liabilities, losses, costs, damages (including reasonably foreseeable consequential damages), penalties, fines, defense costs and disbursements(including without limitation, reasonable attorneys' and experts' fees), judgements, suits, proceedings, expenses or claims, including, but not limited to, remediation, removal, response, abatement, cleanup, legal, investigative, and monitoring costs of any nature whatsoever (collectively "Costs and Liabilities"); and (ii) which may at any time be imposed upon Lessee or be incurred by Lessee (directly or indirectly); and (iii) which Costs and Liabilities arise as the result of activities which predate the date Lessee received actual possession of the Drill Site under the Lease or which are unrelated to any action or activity of Lessee.

(c) In the event that any investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work of any kind or nature (the "Remedial Work") which arises from or out of Lessee's activities under the Lease, is

required under any applicable local, state or federal law or regulation, any judicial order in connection with, the then current or future presence, alleged presence, release or alleged release of oil and/or gas or Hazardous Materials in or into the air, soil, groundwater, surface water or soil vapor at, on, about, under or within the Drill Site or related to Lessee activities therefrom (or any portion thereof), Lessee shall within thirty (30) days after written demand for performance thereof by City (or such shorter period of time as may be required under any applicable law, regulation, or order), commence to perform, or cause to be commenced, and thereafter diligently prosecute to completion, all such Remedial Work. All Remedial Work shall be performed by one or more contractors, approved in advance in writing by City, and under the supervision of a consulting engineer approved in advance in writing by City. 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 the reasonable attorneys' fees and costs incurred by City 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, City 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 an Environmental Claim hereunder.

(d) Anything to the contrary set forth in this Agreement notwithstanding, Lessee shall not be liable under this Agreement to the extent of that portion of any Costs and Liabilities which Lessee establishes is not attributable to Lessee's activities under the Lease.

Notwithstanding the foregoing, the liability of Lessee hereunder shall otherwise remain in full force and effect after City so obtains possession to the Property or Drill Site, including without limitation with respect to oil and/or gas or any Hazardous Materials which are discovered at the Property or Drill Site after the date City obtains possession but which were actually introduced by Lessee to the Property or Drill Site prior to the date of such possession, and with respect to any continuing migration or release of oil and/or gas or any Hazardous Materials introduced at or near the Property or Drill Site prior to the date that City obtains possession.

(e) The terms and provisions of this Agreement shall survive the termination of the Lease. This Agreement, and all rights and obligations hereunder, shall survive performance and payment of the obligations evidenced by and arising under the Lease or possession of the Property or Drill Site by either party.

(f) This Agreement is solely intended to protect the parties from the matters set forth in the preceding paragraphs 2(a) and 2(b) and is not intended to secure payment of the rental or amounts due to City under the Lease.

(g) Nothing contained in this Agreement shall prevent or in any way diminish or interfere with any rights and remedies, including without limitation, the right to contribution, which either party may have against the other or against any other party under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (codified at Title 42 U.S.C. §§ 9601 et seq.), the California Health and Safety Code, Div. 20, Chapter 6.5 as each may be amended from time to time, or any other applicable Federal or state laws.

3. Definitions.

For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Environmental Claim" shall include, but not be limited to, any claim, demand, action, suit, loss, cost, damage, fine, penalty, expense, liability, judgment, proceeding, or injury, whether threatened, sought, brought, or imposed, that seeks to impose costs or liabilities for (i) noise; (ii) pollution or contamination of the air, surface water, ground water, or land; (iii) exposure to Hazardous Materials; (iv) the processing, distribution in commerce, use, or storage of Hazardous Materials; (v) injury to or death of any person or persons directly or indirectly connected with Hazardous Materials and directly or indirectly related to the Property or Drill Site; (vi) destruction or contamination of any property directly or indirectly connected with Hazardous Materials and directly or indirectly related to the Property or Drill Site; or (vii) any and all penalties directly or indirectly connected with Hazardous Materials and directly or indirectly related to the Property or Drill Site. The term "Environmental Claim" also includes (i) the costs of removal of any and all Hazardous Materials from all or any portion of the Property or Drill Site, and (ii) costs incurred to comply, in connection with all or any portion of the Property or Drill Site or any surrounding areas, with all applicable laws with respect to Hazardous Materials, including any such laws applicable to the work referred to in this sentence. "Environmental Claim" also means any asserted or actual breach or violation of any Requirements of Environmental Law, or any event, occurrence or conditions as a consequence of which, pursuant to any Requirements of Environmental Law, (i) Lessee, City or any owner, occupant, or person having any interest in the Property or Drill Site shall be liable or suffer any disability, or (ii) any remedial work shall be required.

(b) "Environmental Permit" means any permit, license, approval, or other authorization with respect to any activities, operations, or businesses conducted on or in relation to the Property or Drill Site under any applicable law, regulation, or other requirement of the United States or any state, municipality, or other subdivision or jurisdiction related to pollution or protection of health or the environment, including laws, regulations, or other requirements relating to recovery of natural resources, to emissions, discharges, or real or threatened releases of Hazardous Materials into ambient air, surface water, ground water, or land, or otherwise relating to the recovery, processing, distribution, use, generation, treatment, storage, disposal, transportation, or handling of Hazardous Materials directly or indirectly related to the Property or Drill Site.

(c) "Requirements of Environmental Law" means all requirements of environmental, ecological, health, or industrial hygiene laws or regulations related to the Property or Drill Site, including all requirements imposed by any law, rule, order, or regulation of any federal, state or local executive, judicial, regulatory, or administrative agency, board, or authority, which relates to (i) noise; (ii) pollution or protection of the air, surface water, ground water, or land; (iii) exposure to Hazardous Materials; or (iv) regulation of the recovery, processing, distribution, and commerce, use or storage of Hazardous Materials.

(d) The term "Hazardous Materials" shall include without limitation:

(i) Those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," or "solid waste" in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 as amended, 42 U.S.C. Sections 9601 et seq., and the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Sections 6901 et seq., and the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801 et seq., and in the regulations promulgated pursuant to said laws;

(ii) Those substances defined as "hazardous wastes" in Section 25117 of the California Health & Safety Code, or as "hazardous substances" in Section 25316 of the California Health and Safety Code, and in the regulations promulgated pursuant to said laws;

(iii) Those chemicals known to cause cancer or reproductive toxicity, as published pursuant to the Safe Drinking Water and Toxic Enforcement Act of 1986, Sections 2549.5 et seq. of the California Health & Safety Code;

(iv) Those substances listed as hazardous substances (49 CFR Part 302 and amendments thereto) in the United States

Department of Transportation Table (49 CFR 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as hazardous substances;

(v) Any material, waste or substance which is: (A) asbestos; (B) polychlorinated biphenyls; (C) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. §1251 et seq. (33 U.S.C. §1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. §1317; (D) a chemical substance or mixture regulated under the Toxic Substances Control Act of 1976, 15 U.S.C. §§2601 et seq.; (E) flammable explosives; or (F) radioactive materials; and

(vi) Such other substances, materials and wastes which are or become regulated as hazardous or toxic under applicable local, state or federal law, or the United States government, or which are classified as hazardous or toxic under federal, state, or local laws or regulations.

4. Notice of Actions.

(a) Each party shall give immediate written notice to the other of (i) any proceeding, inquiry, notice, or other communication by or from any governmental authority, including, without limitation, the California State Department of Health Services, the California State Division of Oil and Gas of the Department of Conservation, and the Environmental Protection Agency, regarding the presence or existence of any Hazardous Material on, under, or about the Property or Drill Site or any migration thereof from or to the Property or Drill Site or any actual or alleged Violation of Environmental Law; (ii) all Environmental Claims and any other claims made or threatened against Lessee, the City or the Property or Drill Site relating to any loss or injury resulting from or pertaining to any Hazardous Material or any alleged breach or violation of any Requirements of Environmental Law; (iii) either party's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property or Drill Site that could reasonably and foreseeably cause the Property or Drill Site or any part thereof to be subject to any restriction on ownership occupancy, transferability or use, or subject the City or Lessee to any liability, penalty, or disability under any Environmental Law including, without limitation, any that could cause the Property or Drill Site or any part thereof to be classified as "border-zone property" under the provision of California Health and Safety Code Sections 25220 et seq. or any regulation thereunder or in connection therewith; and (iv) either party's receipt of any notice or discovery of any information regarding any actual, alleged, or potential use, recovery, production, storage, spillage, seepage, release, discharge, disposal or any other presence or existence of any Hazardous Material on, under, or about the Property or Drill Site,

or any alleged breach or violation of any Requirements of Environmental Law pertaining to Lessee or the Property or Drill Site.

(b) Immediately upon receipt of the same, the noticing party shall deliver to the other party copies of any and all Environmental Claims and any and all orders, notices, permits, applications, reports, and other communications, documents, and instruments pertaining to the activity or action giving rise to the notice.

(c) Each party shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions in connection with the Property or Drill Site involving any Environmental Claim, any Hazardous Material or any Requirements of Environmental Law, and costs and expenses in connection therewith, including attorneys' fees, shall be apportioned pursuant to paragraphs 2(a) and 2(b) of this Agreement.

5. Procedures Relating to Indemnification.

(a) Lessee shall, at its own cost, expense and risk: (i) defend all suits, actions or other legal or administrative proceedings that may be brought or instituted against City on account of any matter or matters arising under or within Section 2(a) above; (ii) pay in or satisfy any judgment or decree that may be recorded against City in any such suit, action, or other legal or administrative proceedings; (iii) reimburse City in accordance with 2(a) above.

(b) Counsel selected by Lessee pursuant to Section 5(a) above shall not be subject to the approval of the City, provided, however, that City may elect to defend any such claim, lawsuit, action, legal, or administrative proceeding at the cost and expense of Lessee, if in the judgment of the City (i) the defense is not proceeding or being conducted in a satisfactory manner, or (ii) there is a conflict of interest between any of the parties to such lawsuit, action, legal, or administrative proceeding.

(c) City shall, at its own cost, expense and risk: (i) defend all suits, actions, or other legal or administrative proceedings that may be brought or instituted against Lessee on account of any matter or matters arising under or within paragraph 2(b) above; (ii) pay in or satisfy any judgement or decree that may be recorded against Lessee in any such suit, action, or other legal or administrative proceedings; (iii) reimburse Lessee in accordance with the provisions of paragraph 2(b) above.

(d) Counsel selected by City pursuant to Section 5(c) above shall not be subject to the approval of the Lessee, provided, however, that Lessee may elect to defend any such claim, lawsuit,

action, legal, or administrative proceeding at the cost and expense of City, if in the judgment of the Lessee (i) the defense is not proceeding or being conducted in a satisfactory manner, or (ii) there is a conflict of interest between any of the parties to such lawsuit, action, legal, or administrative proceeding.

(e) Notwithstanding anything in this Agreement to the contrary, neither party shall, without the prior written consent of the other party (which consent shall not be unreasonably withheld or delayed), (i) settle or compromise any action, suit, proceeding, or claim or consent to the entry of any judgment that does not include as an unconditional term thereof, the delivery by the claimant or plaintiff of a written release of the other party (in form, scope and substance satisfactory to the other party in its reasonable discretion) from all liability in respect of such action, suit, or proceeding; or (ii) settle or compromise any action, suit, proceeding, or claim in any manner that may materially and adversely affect the other party in its sole discretion.

6. Binding Effect.

This Agreement shall be binding upon and to the benefit of Lessee and City and their respective, heirs, personal representatives, successors and assigns.

7. Limitation of Liability of City.

Notwithstanding any ownership by City at any time of all or any portion of the Property or the Drill Site, in no event shall City (including any successor or assign) be bound by any obligations or liabilities of Lessee.

8. Full Force and Effect; Defined Terms.

City and Lessee hereby acknowledge that this Agreement is to supplement the terms and provisions of the Lease. All terms, not specifically defined herein, shall have the same meanings ascribed to them in the Lease.

IN WITNESS WHEREOF, the parties have entered into this Indemnification Agreement effective as of the date first above written.

"City"
City of Hermosa Beach

By: Kathleen Midstokke

Approved as to form:
City Attorney

By: Charles S. Vesce

"Lessee"
Windward Associates, a California limited partnership

By: Macpherson Oil Company, General Partner

By: [illegible]

GLG Energy, L.P., a limited partnership

By: [illegible]