

Exhibit 2

SLC 8704

BOLSA SURFACE USE AGREEMENT

THIS AGREEMENT made and entered into as of the 2nd day of September, 1971, by and between SIGNAL BOLSA CORPORATION (Bolsa), a California corporation, and SIGNAL OIL AND GAS COMPANY (Oil), a Delaware corporation,

W I T N E S S E T H:

THAT WHEREAS Bolsa is the owner of certain fee interests in the surface and the subsurface in and under certain lands situate at Bolsa Bay, Orange County, California, which interests and lands are more particularly described in that certain deed dated July 17, 1970, from Signal Properties, Inc. as Grantor, to Bolsa, as Grantee, recorded the 24th day of July, 1970, in Book 9355, page 737, in the Official Records of Orange County (Bolsa Lands); and

WHEREAS, Oil is the Lessee under the following oil and gas leases:

1. Lease dated June 12, 1940, recorded December 12, 1941, in Book 1120, Page 435, Official Records of Orange County, California, as thereafter amended (North Lease); and
2. Oil and Gas Lease dated December 1, 1943, recorded February 11, 1944, in Book 1238, Page 108, Official Records of Orange County, California, as thereafter amended (South Lease); and

WHEREAS, the Bolsa Lands and the North Lease and the South Lease are generally described on the plat attached hereto as Exhibit "A"; and

WHEREAS, Oil is the owner of all wells (except agricultural water wells and related facilities) and oil and gas facilities located on the Bolsa Lands, except the wells and oil and gas facilities located on the portion of the Bolsa Lands leased by Standard Oil Company; and

WHEREAS, Bolsa desires to provide for the location, relocation and/or removal of the wells and oil and gas facilities of Oil now or hereafter located on the Bolsa Lands so as to permit and encourage the use of the Bolsa Lands for real estate development purposes;

NOW, THEREFORE, in consideration of ten dollars (\$10) paid by Bolsa to Oil and the premises and mutual covenants and agreements contained herein, it is hereby agreed as follows:

1. Oil hereby surrenders and quitclaims unto Bolsa the surface, and also the subsurface extending downward to a depth of five hundred feet (500') below the surface, of the Bolsa Lands, excepting and reserving, however, from the operation of this paragraph those portions and parcels of the surface or the surface and the subsurface of the Bolsa Lands as more particularly described in the Reservation Schedule attached hereto as Exhibit "B", but only for oil and gas drilling and production operations; also excepting and reserving the right to use the existing roads and highways, both public and private, for the purpose of access to and from all wells and oil and gas facilities, subject, however, to the right of Bolsa to substitute therefor a dedicated road or roads at any time or from time to time; also excepting and reserving the right to use the pipelines and pole lines thereon or therein, subject, however, to the right of Bolsa to relocate any part thereof from time to time under paragraph 7 hereof.

2. The parties hereto agree to plans as shown on the OIL FACILITIES PLAN attached hereto as Exhibit "C" which shows the location of all wells, drill sites and production areas, together with oil and gas facilities which exist on the Bolsa Lands. Exhibit "C" also shows idle wells and wells of fixed life duration.

Bolsa agrees to reimburse Oil for extra costs incurred by Oil in the drilling and redrilling of wells from the South Bolsa island, subject, however, to prior written approval by Bolsa of plans for project and extra costs to be paid by Bolsa. Extra costs are defined as the difference between development and operational costs from the island as compared to operation by normal vertical drilling by a prudent operator without regard to surface real estate development.

3. Oil agrees at all times to conduct its operations in accordance with all applicable and valid laws, rules and regulations, and also, insofar as may be reasonably practicable and in accordance with sound oil and gas engineering practices, in such manner as to not allow or permit the conduct of operations that may be unduly detrimental or harmful to the use of the surface for real estate development purposes. Oil shall not conduct any refining process or any process for the extraction of products from natural gas on the Bolsa Lands. Oil shall not conduct operations of any nature (other than maintenance and transportation) on any portion of the surface or subsurface of the Bolsa Lands not reserved to Oil hereunder without the written consent of Bolsa first obtained. Oil shall have the right to provide road, power and pipeline facilities and to drill and produce, without charge, fresh and salt water source wells at mutually agreeable locations on the Bolsa Lands. Oil agrees specifically to comply with the Oil Operating Conditions attached hereto as Exhibit "D" upon request by Bolsa.

Bolsa agrees to reimburse Oil for extra costs incurred by Oil in complying with the conditions of Exhibit "D", subject, however, to prior written approval by Bolsa of plans for the work and extra costs to be paid by Bolsa. Extra costs are

defined as the difference between development and operational costs under the restricted conditions given in Exhibit "D" as compared to development and operational costs which would otherwise be incurred under the then existing normal terms and conditions imposed by the county for oil field operations.

If Bolsa Lands are annexed to or form a municipality, Bolsa will pay the additional costs, if any, of oil field operations imposed by that municipality as compared to the then existing normal terms and conditions imposed by the county for oil field operations, exclusive of costs of taxes, licenses and assessments. X

4. Upon the cessation of production of any well in quantities sufficient to pay the costs of operation of such well, unless Oil desires to use such well as an injection or disposal well, or upon the cessation of use of any other oil and gas facility or facilities, including inter alia, roads, highways, pipelines, pole lines and water service, injection or disposal wells, Oil shall, at its expense, plug and abandon such well and remove such facility or facilities and clean up and restore the surface of the land to a clean, level and safe condition. Oil will not permit a well or oil and gas facility to stand idle on the demised premises for more than six months after notification by Bolsa, except as otherwise provided in any existing agreement to which either party hereto may be subject. Oil shall also surrender and quitclaim to Bolsa the surface and subsurface to a depth of five hundred feet (500') of the land no longer used for such purpose.

5. Except as otherwise herein specifically provided, all risks, costs and expenses of oil and gas exploration, development and producing operations, including the drilling,

defined as the difference between development and operational costs under the restricted conditions given in Exhibit "D" as compared to development and operational costs which would otherwise be incurred under the then existing normal terms and conditions imposed by the county for oil field operations.

If Bolsa Lands are annexed to or form a municipality, Bolsa will pay the additional costs, if any, of oil field operations imposed by that municipality as compared to the then existing normal terms and conditions imposed by the county for oil field operations, exclusive of costs of taxes, licenses and assessments. X

4. Upon the cessation of production of any well in quantities sufficient to pay the costs of operation of such well, unless Oil desires to use such well as an injection or disposal well, or upon the cessation of use of any other oil and gas facility or facilities, including inter alia, roads, highways, pipelines, pole lines and water service, injection or disposal wells, Oil shall, at its expense, plug and abandon such well and remove such facility or facilities and clean up and restore the surface of the land to a clean, level and safe condition. Oil will not permit a well or oil and gas facility to stand idle on the demised premises for more than six months after notification by Bolsa, except as otherwise provided in any existing agreement to which either party hereto may be subject. Oil shall also surrender and quitclaim to Bolsa the surface and subsurface to a depth of five hundred feet (500') of the land no longer used for such purpose.

5. Except as otherwise herein specifically provided, all risks, costs and expenses of oil and gas exploration, development and producing operations, including the drilling,

rights-of-way in connection with the utilization of such site, and Oil shall be entitled to use and operate such new site, easements and rights-of-way, without payment to Bolsa of any rental or other consideration for such use. Bolsa shall also reimburse Oil for all direct costs, plus engineering design and field supervision and loss of production or injection, incurred by Oil in any such relocation required by Bolsa.

In relocating, modifying, or replacement of facilities where costs are paid by Bolsa, the cost shall not exceed the cost of replacement with equipment of the same service after credit for salvage. If Oil installs new and improved-type facilities to achieve greater operating efficiency or capacity, the added costs of equipment over that for original service, capacity and efficiency are to be paid by Oil.

In determining reimbursement for such loss of production and/or loss of injection, all direct, indirect, and other related operating costs which would be chargeable shall be deducted from the value of the products.

8. As an alternate to the rights of Bolsa under paragraph 7, Bolsa shall have the right at any time to require Oil to abandon any well upon the condition that Bolsa pay to Oil the cost of such required abandonment and the fair market value of the total production of oil, gas and other hydrocarbon substances from such well from the time of abandonment that would otherwise be produced with respect to such well if it were left on production until it was no longer economic to operate and produce same by primary or secondary means, which fair market value shall be discounted by a factor obtained from standard interest tables for the then prime interest rate charged by commercial banks in Los Angeles for prime short-term commercial loans so as to result in a discounted present value of such future production. In determining such value, all direct, indirect and other related operating costs which would be

chargeable to such well shall be deducted from the anticipated value of the products from such well before applying any discount factor. In the event Bolsa and Oil cannot within forty-five (45) days, agree on the present value of such future production, then such value shall be finally resolved by arbitration pursuant to the rules and regulations then current of the American Arbitration Association. Bolsa and Oil shall each appoint one arbitrator and the two so appointed shall appoint a third. All three shall be qualified petroleum engineers, and their decision shall be final and binding on both parties. Oil and Bolsa shall share said arbitration costs equally. If Oil is obligated to make abandonment payments to third party interests under existing agreements which are based on values that are different from the values determined hereunder, then the abandonment values so determined for payment to third party interests shall, insofar as such third party interests alone are concerned, supersede the values determined between Bolsa and Oil alone and all abandonment payments hereunder to such third parties alone shall be based thereon; provided, however, that in such event Bolsa shall have and is hereby granted the right to elect to participate in any such third party negotiation or arbitration in the place and stead of Oil and to be bound with Oil in abandonment values determined by said third party negotiation or arbitration.

9. Except as otherwise herein specifically provided, all costs incurred in rendering the surface of the land more adaptable for real estate purposes rather than for oil and gas operations, including without limiting the generality of the foregoing, costs incurred at the request of Bolsa in soundproofing, landscaping, fencing-beautification, screening or camouflaging of wells or oil and gas facilities (except any portion thereof attributable to the

cleanup and restoration of any land as provided for in paragraph numbered 4 hereof or to compliance with paragraphs numbered 2 or 3 hereof) shall be borne by Bolsa.

10. Oil agrees to be solely responsible for its operations and agrees to indemnify and save Bolsa harmless from any liability or damages which may result from its operations. Bolsa agrees to be solely responsible for its operations and agrees to indemnify and save Oil harmless from any liability or damages which may result from its operations. The parties agree to cooperate in the obtaining of any and all permits and agreements necessary to effectuate the intent of this agreement and to permit the prompt implementation by Bolsa of its development plan, including inter alia, all necessary or desirable agreements with the State of California to stipulate boundaries, exchange lands and cure titles. The parties agree to promptly execute and deliver any and all documentation which may be necessary to effectuate the terms and intent of this agreement.

11. Oil agrees that if it does not commence any abandonment, relocation or removal of its facilities (other than oil and gas wells) or restoration of surface as agreed herein within six (6) months following delivery of written demand therefor by Bolsa or does not thereafter complete same with due diligence, then Bolsa may proceed with same without liability of any kind to Oil. Oil also agrees that if it does not commence an abandonment or removal of its oil and gas wells as required herein within three (3) months following written demand by Bolsa and establishment of value in accordance with the provisions of paragraph numbered 8 or does not thereafter complete same with due diligence, then Bolsa may proceed with same without liability of any kind to Oil. Oil shall

reimburse Bolsa for any direct costs, except as to third party liabilities, incurred by Bolsa in fulfilling any such obligations of Oil. Direct costs shall not exceed such costs as are chargeable for similar work by reputable and responsible contractors engaged in the business of performing such work and shall not include any overtime rates therein for accelerating the performance of such work.

12. Bolsa hereby grants Oil licenses revocable at any time, upon at least one year's prior written notice of any such revocation, as follows:

A. The use of a helicopter site at a location mutually acceptable to Bolsa and to Oil.

B. The use of land on which to dump well cuttings at locations which are mutually acceptable to Bolsa and to Oil. Cuttings shall be limited to the type of fill material which in the opinion of Bolsa will reasonably compact and become a reasonable part of the land mass.

C. The use of land on which to have sumps for separating oil and water at locations which are mutually acceptable to Bolsa and to Oil.

D. The use of land on which to have pipe and equipment storage areas at locations which are mutually acceptable to Bolsa and to Oil.

Bolsa hereby agrees to allow Oil to use undeveloped land for the above use or uses of this paragraph 12 so long as Oil's use does not interfere with the real estate development of the property. Bolsa also hereby agrees to not unduly and unreasonably withhold lands from use by Oil for uses covered in this paragraph 12.

Bolsa will reimburse Oil for any capital and relocation

costs and additional costs of operation incurred by Oil attributable to the revocation of any license granted under this

paragraph 12, but only as to that portion of the license use which applies solely to oil field operations conducted on the Bolsa Lands. Relocation costs of any existing use at the time of agreement to be paid by Bolsa if relocation is on Bolsa Lands.

13. Oil hereby agrees to pay pro rata share of property taxes applicable to land reserved by Oil in Exhibit "B" or covered by revocable license in paragraph 12.

This agreement shall be binding upon the successors, assigns and legal representatives of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed as of the day and year first above written.

SIGNAL BOLSA CORPORATION

By M. W. Wagoner

By William F. Allen

SIGNAL OIL AND GAS COMPANY

By E. E. Ferguson

By J. H. Ford Vice President
Asst. Secretary