

For Release
see book 19 at
Page 370

U-755

168

AGREEMENT AND OPTION

THIS AGREEMENT, made and entered into this 25th day of February, 1955, by and between Arthur W. Burke, Jr., of P. O. Box 1856, Denver, Colo., hereinafter called "First Party", and KEN OIL, INC., of Tulsa, Oklahoma, hereinafter collectively called "Second Party",

WITNESSETH:

WHEREAS, First Party has filed an application for an oil and gas lease under the Act of Congress, approved February 25, 1920 (41 Stat. 437), as amended, bearing Serial No. 022344, said application bearing date July 9, 1953, and covering the following described land in the County of Sublette, and State of Wyoming:

Twp. 34 N., R. 111 W, 6th PM;

- Sec. 13: All;
- Sec. 14: All;
- Sec. 23: All;
- Sec. 24: All;

Total Acreage - 2,560.00 Acres

Said lease was issued to the First Party as to the above described land under date of August 1, 1953

NOW, THEREFORE, in consideration of the sum of Ten Dollars (\$10.00), receipt and sufficiency of which is hereby acknowledged, and the mutual covenants and agreements herein contained, it is hereby agreed by and between the parties hereto as follows:

1. Second Party shall reimburse First Party for filing fees and/or rentals which may have been paid in advance by First Party upon filing of said application.
2. Immediately upon the receipt of any notice or communication pertaining to said application or lease from the Department of the Interior or from any other source, First Party will transmit such notice or communication, or photostatic copy thereof, to Ken Oil, Inc., one of the Second Parties herein, at ~~XXXXXX~~ P. O. Box 1856, Denver, Colorado, or at such other address as Second Party shall designate in writing.
3. First Party hereby grants unto Second Party the exclusive right to enter and make such geophysical and/or geological surveys, explorations, investigations and tests, including core drilling, as Second Party may desire to make upon said lands, from the date of this instrument until termination of the period specified in Section 4 for exercise of the option herein granted.
4. First Party hereby grants Second Party the option to acquire from time to time the exclusive right to explore for, and to produce, treat, handle and market oil and gas from any or all of the above described lands in accordance with the terms of any lease issued pursuant to the aforesaid application or any extension or renewal thereof, subject to the applicable laws and regulations governing said operations, from the date of exercise of this option and thereafter during the term of such lease, extension or renewal. This option may be exercised by Second Party at any time and from time to time in whole or in part within two years from the date hereof in the event an oil and gas lease has been issued pursuant to said application, or in the event such oil and gas lease hereafter issues, then within two years from the date of said oil and gas lease, by notice given by registered letter addressed to First Party at the address hereinabove stated or at such other address as First Party may have furnished in writing to Second Party. Provided, that in the event all or any part of the land covered hereby is included in a cooperative or unit plan as provided for in Paragraph 6 hereof, duly executed and submitted to the Secretary of the Interior for final approval prior to the expiration of said two year period, then as to that part of the land covered by this option which is included in said cooperative or unit plan, said option may be exercised at any time up to and including thirty (30) days after the date of final approval or disapproval by the Secretary of the Interior of said cooperative or unit plan. Upon exercise of its option herein granted, Second Party shall pay to First Party ten cents (10¢) per acre for each acre of the above described lands as to which the option is exercised. Until Second Party so notifies First Party, Second Party shall have no right to produce oil or gas from the said above described lands, or any part thereof. Failure to exercise said option within the time herein limited shall have the effect of terminating this instrument and all rights granted hereby.
5. First Party represents to and covenants with Second Party that First Party has not heretofore sold, assigned, transferred, encumbered or conveyed said application or any right, title or interest therein, or in any lease which may be issued pursuant thereto, and that First Party has full power, right and authority to execute this agreement. Nevertheless, in the event First Party's interest shall be less than the full and undivided ownership of the lease pursuant to said application, the overriding royalty payable hereunder shall be proportionately reduced.
6. At its election, Second Party, as attorney in fact for First Party, may incorporate all or any part of the above described lands with other lands in a cooperative or unit plan or communication agreement for the operation and development of all of said lands for oil and gas purposes in accordance with the provisions of the Act of Congress, approved February 25, 1920 (41 Stat. 437), as amended.
7. First Party hereby appoints and irrevocably constitutes Second Party First Party's attorney in fact, with power to take any action which Second Party may deem advisable in order to assure the issuance of an oil and gas lease pursuant to the above described lease application or to withdraw said application in whole or in part; to protect and maintain in good standing any oil and gas lease so issued and to secure the adoption and approval of the unit agreement or cooperative plan of development or communication agreement, in form approved by the Secretary of the Department of the Interior, covering any or all of the above described land as hereinabove provided and committing First Party's interest thereto. First Party upon Second Party's request, will aid and assist any such action.
8. Second Party's interest hereunder shall be owned and held in the following undivided proportions:

Kewanee Oil Company	- 60%
Ken Oil, Inc.	- 40%

First Party will execute any such further instruments and such further additional assurances as Second Party may request from time to time, and as may be proper and necessary, in order to vest in Second Party the full and complete rights herein provided. First Party will, after exercise of the option herein granted, upon demand of Second Party, execute an assignment vesting in Second Party, in the proportions set forth above, full legal title to the said oil and gas lease, or extension, or renewal thereof, or any part thereof as to which said option has been exercised, subject to the reservation of overriding royalty as described in Section 9 of this agreement.
9. In the event Second Party, from time to time, exercises its option herein granted, in whole or in part, then, as to the land upon which the option is exercised, the following terms and provisions shall thereupon become effective and operative, to-wit:
 - A. All oil and gas and the proceeds thereof produced from said lands and/or allocated or attributed to said lands under a unit plan or communication agreement approved by the Secretary of the Interior remaining after payment of royalties reserved by the United States shall belong to Second Party as its full compensation for its expenditures in exploring said lands and producing oil and gas therefrom and/or attributable thereto and rendering the other services required of it hereunder.
 - B. Second Party is hereby granted the exclusive right as between the parties hereto to develop and operate the lands covered by exercise of said option and each and every part thereof to such extent and in such manner as Second Party in the exercise of its good faith and business judgment shall determine to be proper, without incurring any liability whatsoever to First Party. Nothing herein contained shall be deemed, as between the parties hereto, to obligate Second Party to produce, save or sell oil, gas or other production therefrom for the benefit of First Party.
 - C. Second Party shall pay to First Party as an overriding royalty, and there is hereby reserved to First Party

One-Fourth of One per cent (**.25**%) of the proceeds of all (8/8ths) of the oil and gas and casinghead gas if, as and when produced, saved and sold from the said premises above described under the terms of said oil and gas lease, any extension or renewal thereof or any lease issued in lieu thereof, subject, however, to the following terms and conditions:

- (1) In the event of unitization or communication as hereinbefore provided, such overriding royalty shall be calculated upon proceeds from the portion of the oil and gas produced, saved and marketed from the unit which, under the unit plan or communication agreement, shall be allocated to the premises as to which the option is exercised.
- (2) Payment of such overriding royalty shall constitute full settlement with First Party for the value or the proceeds, as the case may be, of all of said production.
- (3) No overriding royalty payable hereunder shall be payable or accrue upon any oil or gas used for operating, development or production purposes on the lands above described, or said cooperative or unit plan, or unavoidably lost, and no overriding royalty shall be payable on gas used for re-cycling and re-pressuring operations on the lands above described or the unitized area of which they may become a part.
- (4) Before computing the amount of any overriding royalty payable hereunder, Second Party shall have the right to deduct from the value of the oil and gas or the proceeds thereof on which such overriding royalty is computed, the full amount of any taxes required to be paid by Second Party or assessed on such oil and gas or the value thereof, or for or on account of the production, sale and/or transportation thereof.