

(a) This agreement, when filed in the appropriate Land Office for approval of the Secretary of the Interior or his duly authorized representative as an assignment of said oil and gas lease, shall thereupon and at all times thereafter and for all purposes, with respect to all lands included in the notice of exercise of the option, be treated, construed and operate as an assignment and transfer by First Party to Second Party of said oil and gas lease, including the oil, gas, casinghead gas and other minerals produced thereunder, subject to the payment of the overriding royalties or other payments out of production, if any, hereinbefore specifically set forth and subject to the payment to First Party of the overriding royalty hereinafter provided, containing covenants of warranty that First Party has full right and authority to so assign and transfer said oil and gas lease and that said oil and gas lease and the oil, gas, casinghead gas and other minerals which may be produced therefrom are free and clear of all claims, liens and encumbrances, except the overriding royalties or other payments out of production hereinbefore specifically mentioned, if any, which covenants First Party agrees to defend against all persons whomsoever, subject, however, to the terms and conditions of said lease.

(b) Second Party shall pay to First Party as an overriding royalty three percent (3%) of the proceeds of the oil, gas and casinghead gas, if, as and when produced, saved and sold from said premises under the terms of said oil and gas lease or, in the event of unitization or communization as hereinabove provided, such overriding royalty shall be calculated upon proceeds from the portion of the oil, gas and casinghead gas produced, saved and marketed from the unit which under the unit plan or communization agreement shall be allocated to said premises upon which Second Party exercises its option. Provided, that if the overriding royalty herein provided to be paid to First Party plus the total of all prior existing overriding royalties or burdens on production, if any, plus the royalty payable to the United States in the aggregate exceeds  $17\frac{1}{2}\%$ , the overriding royalty payable to First Party hereunder shall be reduced to the extent said aggregate shall exceed  $17\frac{1}{2}\%$  when the average production per well per day averaged on a monthly basis is (1) as to oil, 15 barrels or less and (2) as to gas, 500,000 cubic feet or less. This provision shall apply separately to each productive zone or portion of the lease segregated for computing Government royalty. Without impairment of the lessee's rights under the warranty above provided, it is agreed that in the event First Party's interest shall be less than the full and undivided ownership of said oil and gas lease, subject only to the payment of the overriding royalties and other payments out of production provided for above, if any, the overriding royalty payable hereunder shall be proportionately reduced.

(c) No change in the ownership of all or any part of the interest or rights of First Party hereunder shall be binding upon Second Party unless and until Second Party shall be furnished with the original or an acceptable certified copy of the instrument evidencing such change of ownership, or other legal evidence of such change of ownership as may be required by Second Party.

(d) No overriding royalty payable hereunder shall be payable or accrue upon any oil, gas or casinghead gas used for operating, development or production purposes on the lands covered by said lease or leases, or said cooperative or unit plan, or unavoidably lost, and no overriding royalty shall be payable on gas used for recycling and repressuring operations on the lands above described or the unitized area of which it may become a part.

(e) Before computing the amount of any overriding royalty payable hereunder, Second Party shall have the right to deduct from the value of the oil, gas and casinghead 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, gas and casinghead gas or the value thereof, or for or on account of the production, sale and/or transportation thereof.

(f) Second Party is hereby granted the exclusive right, as between the parties hereto, to develop and operate the lands covered by the 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 judgement shall determine to be proper, without incurring any liability whatsoever to First Party.

(g) Subject to the surrender provision as hereinabove contained, this agreement as to the lands included in any exercise of the option as herein provided shall continue in full force and effect for and during the full term of said oil and gas lease or any extension or renewal thereof.