

Option Agreement on United States Oil and Gas Lease

FORM OF ASSIGNMENT

(DESIGNATION OF LEASE AS IN OPTION)

THIS ASSIGNMENT made and entered into this _____ day of _____ 19____, by and between

_____, hereinafter called Assignor (whether one or more), and

_____, hereinafter called Assignee, DOES WITNESS THAT

for and in consideration of the sum of _____ Dollars

in hand paid by Assignee to Assignor, receipt of which is hereby acknowledged, it is agreed by and between the parties as follows, to wit:

1. Assignor does hereby assign, transfer, and set over to Assignee the United States oil and gas lease designated above, and the offer therefor if the lease has not yet issued, (hereinafter referred to as "the lease"), in so far as it covers the following described land (hereinafter referred to as "the assigned land") situate in _____ County, _____, to wit:

TO HAVE AND TO HOLD unto Assignee absolutely, subject to the overriding royalty herein reserved and all of the other terms and provisions hereof.

2. The rate of the overriding royalty herein reserved to Assignor is _____ per cent.

3. The overriding royalties previously reserved total _____ per cent.

4. Reservation of Overriding Royalty. Assignor reserves and retains, and Assignee agrees to pay and deliver to Assignor, an overriding royalty at the percentage rate hereinafter specified in and to the gross proceeds received from the sale at the well, or if not sold at the well but used or marketed off the leased premises, then the market value at the well, of the oil, gas, casinghead gas and other leased substances if, as and when produced, saved, sold and marketed by Assignee from the assigned land under the terms and provisions of the lease or any extension or renewal thereof.

Assignee may use oil, gas, casinghead gas and other leased substances free from the payment of overriding royalty for the development and operation of the assigned land and of land with which the same may be pooled or unitized.

The overriding royalty herein reserved is subject to the payment of its proportionate part of any ad valorem, severance, gross production, net proceeds, gross proceeds, or other form of tax which is based upon or measured by the value of the lease or the amount or value of the production therefrom, or which has as its incidence the ownership of the lease, or the severance, production, sale or removal of oil, gas, casinghead gas, or other leased substances herefrom or the receipt of the proceeds of the sale of such substances.

If it is necessary to treat the leased substances in order to render them marketable as crude products on the lease where produced—as, for example, by heating, dehydration, desulfurization, compression,—the overriding royalty herein reserved shall bear the burden of its proportionate part of the expense of such treating.

5. Pooling and Unitization. If the lease is now or hereafter pooled or unitized as to the assigned land or any part thereof for the purpose of developing and operating the same as a unit with other land, such pooling or unitization shall extend to and be binding on the overriding royalty herein provided for, and it shall be paid upon the basis of the production allocated to the assigned land under the plan or agreement of pooling or unitization, rather than upon the basis of the actual production therefrom. It shall not be necessary for Assignor to execute or join in any plan or agreement of pooling or unitization, but Assignor agrees to do so upon the request of Assignee. If Assignor omits or fails to execute any such plan or agreement, Assignee is hereby authorized to execute the same as the Attorney in Fact, and in the name, place and stead, of Assignor. Such authorization extends to and includes any agreement provided for or permitted by the Mineral Leasing Act, as amended, and the rules and regulations issued pursuant thereto.

6. Suspension of Overriding Royalty. If the overriding royalty herein reserved, when added to overriding royalties or payments out of production previously created and to the royalty payable to the United States, aggregates in excess of 17½ per cent, the obligation to pay such excess overriding royalty shall be suspended when the average production per well per day averaged on a monthly basis is (a) as to oil, 15 barrels or less and (b) as to gas, 500,000 cubic feet or less. This limitation shall apply separately to any zone or portion of the lease segregated for computing Government royalty.

7. Lesser Interest Clause. If the lease covers less than the entire and undivided fee simple estate in the assigned land, or if this instrument transfers less than the entire interest in the lease as to the assigned land, then the overriding royalty herein provided for shall be paid to Assignor only in the proportion that the working interest acquired hereunder by Assignee bears to the working interest Assignee would have acquired if the lease covered the entire and undivided fee and this instrument transferred the entire interest therein to Assignee.

8. No Development Obligations to Assignor. The overriding royalty herein provided for being payable only if, as and when oil, gas, casinghead gas, and other leased substances are produced and marketed from the assigned land, the creation and existence of such overriding royalty shall not subject or impose upon Assignee any obligation or duty to Assignor, express or implied, with respect to the exploration, development or operation of the assigned land, including the protection of the same from drainage and the marketing of production therefrom. Such exploration, development and operation shall be at the sole discretion of Assignee, and a suspension of operations and/or production may be applied for and granted at any time without the consent of or notice to Assignor.

9. Release of Lease. Assignee agrees that it will not release, relinquish or surrender the lease to the Lessor as to the assigned land, in whole or in part, without giving Assignor notice of its intention to do so on or before sixty (60) days before an anniversary date of the lease, and that it will reassign the lease to Assignor as to the acreage it intends to release. If Assignor requests this in writing on or before fifteen (15) days after receipt of Assignee's notice, If Assignor does not request such reassignment, Assignee may release the lease and be thereupon relieved and discharged of all obligations to Assignor not theretofore accrued as to the land with reassignment. Nothing herein to the contrary notwithstanding, Assignee shall not be liable to Assignor for inadvertent failure to give the notice herein required.

10. Assignment. If the estate or interest of either party hereto is assigned, and the privilege of assignment in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors, or assigns, but no change in the ownership of the overriding royalty herein provided for shall be binding on Assignor until after Assignee has been furnished with a written transfer or assignment or a certified copy thereof. An assignment of the lease in whole or in part shall, as to the extent of such assignment, relieve and discharge Assignee of all obligations hereunder not theretofore accrued.

11. Warranties. Assignor, for himself, his heirs, successors and representatives, covenants with Assignee, its successors and assigns, that Assignor is the lawful owner of the interest herein designated in the lease and rights and interests thereunder, and the personal property thereon or used in connection therewith; that Assignor has good right and authority to sell and convey the same; that said rights, interests and property are free and clear from all liens and encumbrances, except the overriding royalties, if any, above designated as having been heretofore reserved; that all rentals and royalties due and payable hereunder have been paid; and that Assignor will warrant and defend the same against the lawful claims and demands of all persons whomsoever.

12. Further Assurances. Assignor agrees that if the authority having power to approve this assignment shall fail or refuse to approve the same, Assignor will execute and deliver to Assignee such other or further instruments as may be acceptable to such approving authority for the transfer to Assignee of the rights herein provided for, or the equivalent thereof.