

3. During the period of this agreement, as in Paragraph 2 provided, Optionor does hereby give and grant unto Optionee all rights and privileges under the aforesaid lease of entering upon and exploring the leased land by geological, geophysical, or other methods, whether now known or not, which in Optionee's judgment will enable or assist Optionee in making its determination to acquire or not to acquire all or any part of the leased land, and Optionor does hereby acknowledge that Optionee desires this option to enable it to conduct such geological, geophysical and other work on said lands for possible oil and gas exploration and development.

4. During the period of this agreement, Optionor shall forthwith deliver to Optionee any and all demands of the United States for rentals as they accrue under the terms of the aforesaid oil and gas lease and Optionee shall pay said rentals within ten (10) days from receipt of said demands from Optionor. Optionor shall notify Optionee of the receipt of all demands for lease bonds as may be required under law and rules and regulations of the Department of the Interior, and shall furnish said bonds within ten (10) days from receipt of such demand. Upon satisfactory proof by Optionor of the filing of said lease bonds, Optionee shall reimburse Optionor for the cost thereof. Optionee may, at its option, in lieu of paying said rentals or reimbursing Optionor for the cost of furnishing said lease bonds, surrender and quitclaim to Optionor its rights under this agreement as to the lands so involved.

5. Optionee may at any time during the period of this agreement surrender and quitclaim unto Optionor its rights as to all or any part of the leased land hereinabove described, and this agreement shall be of no further force and effect as to such land so surrendered and quitclaimed.

6. In event Optionee elects to exercise the said option and rights herein granted, Optionor shall forthwith deliver to Optionee, for filing with the Department of the Interior, an Assignment in quintuplicate in form as set forth in Exhibit "A" properly executed, acknowledged and dated.

Within ten (10) days after receipt of said Assignment, Optionee shall pay to Optionor the sum of \_\_\_\_\_  
-----Ten and No/100----- dollars (\$ 10.00 )  
as consideration for said Assignment and as additional consideration for this agreement.

7. The following covenants of this agreement, which shall also become a part of the Assignment hereinbefore referred to under Section 6 shall bind the parties hereto in all respects as though fully set forth in said Assignment, are as follows:

A. The overriding royalties to be retained and reserved by Optionor shall be payable in cash only and not in kind.

The value of Optionor's royalty shall be determined as hereinafter set forth:

**OIL:** The value of the oil shall be computed on the basis of the posted field price adopted by Socony-Mobil Vacuum Oil Company, Inc. applicable for oil of like quality and gravity at the well in the field where produced at the time of production. All oil containing more than three per cent (3%) of water, emulsion and basic sediment may be treated or dehydrated at the option of Optionee to render said oil merchantable, and Optionor shall be charged at the rate of five cents (5c) per barrel for such treating or dehydration of Optionor's proportionate share which Optionee may currently deduct from any monthly payments or settlements due Optionor.

**GAS:** The value of gas, including casinghead gas and all gaseous substances produced from the leased land and sold or used off the premises or in the manufacture of gasoline or other product, shall be the current market price at the wells of the gas so sold or used.

Nothing in this agreement shall be construed as obligating Optionee to market or dispose of production from the leased land in the absence of a market therefor.

B. In the event there is a division of ownership of Optionor's overriding royalty interest which requires payments to more than three persons, Optionee may withhold payments accruing under said overriding royalty interest until the parties entitled thereto shall have executed proper division orders setting forth their interest therein.

No change in ownership of said overriding royalty, or any interest therein, shall be binding upon Optionee until thirty (30) days after the receipt by Optionee of the original or a certified copy of the instrument evidencing such change of ownership or other evidence acceptable to Optionee.

C. The overriding royalty to be retained and reserved by Optionor shall bear its pro rata share of any production, severance, franchise or licensing tax or any other tax computed, measured by or based upon production of oil and/or gas which may be imposed by the Federal Government, said state or any of its political subdivisions. Optionee is hereby authorized to and at its election may pay all taxes of Optionor and deduct Optionor's share of the taxes so paid from the amount of royalties which shall become due.

D. Optionee shall have the use, without payment of royalty, of so much of the oil, gas and other hydrocarbon substances produced on said lands as may be required in Optionee's operations thereon.

E. Optionor hereby represents and warrants that Optionor has conformed with all provisions of the law pertaining to the issuance of said lease or application for lease and that Optionor does not hold directly or in-