

File No. 31640

Sallie Armstrong,)
 to) OPTION AGREEMENT
 The Texas Company.)

OPTION AGREEMENT

THIS AGREEMENT, made the 25th day of February, 1954, by and between SALLIE ARMSTRONG, hereinafter called "Optionor," and THE TEXAS COMPANY, a Delaware Corporation, hereinafter called "Optionee,"

W I T N E S S E T H :

THAT, WHEREAS, under date of February 23rd, 1954, Optionor filed an application bearing serial number for an oil and gas lease from the United States of America, covering the following described lands in the County of Eureka, State of Nevada, to wit:

TOWNSHIP 28 NORTH, RANGE 51 EAST, M.D.B.&M.

Sec. 13: SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$;
 Sec. 24: E $\frac{1}{2}$ E $\frac{1}{2}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$;
 Sec. 25: E $\frac{1}{2}$ E $\frac{1}{2}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$;

and containing 640.00 acres, more or less.

said lands being hereinafter referred to as "subject lands."

NOW, THEREFORE, for and in consideration of the sum of Ten and no/100-----

Dollars (\$10.00) and other good and valuable considerations to Optionor in hand paid by Optionee, the receipt of which is hereby acknowledged, Optionor does hereby give and grant unto Optionee the sole and exclusive right and privilege to purchase and acquire from Optionor said oil and gas lease, insofar as it relates to and covers the subject lands, or any part or parts thereof, at any time and from time to time within the period (hereinafter called "option period") expiring two (2) years from the issuance of said lease, subject, however, to the overriding royalty reservation hereinafter referred to and upon the following conditions.

1. This option is taken for the purpose of geological and geophysical exploration, and Optionee shall have the right at any time and from time to time to carry on and prosecute such exploration on the subject lands during the two-year period following the issuance of said lease.

2. When said lease is issued, Optionor shall forward same to Optionee, and upon receipt of same, Optionee shall pay to Optionor an additional consideration which, when combined with the consideration paid concurrently herewith, is equal to the sum of One and 50/100---Dollars (\$1.50) for each acre of the subject land embraced in said lease as issued. Optionee shall cause a photostatic copy of said United States oil and gas lease to be made for its file and return the original thereof to Optionor.

3. In the event of the exercise of said option, Optionee, as consideration for the assignment of said lease, shall pay Optionor the sum of Ten Dollars (\$10.00). If said Option is not exercised, the amount so paid shall be retained by Optionor as consideration for the said option.

4. The said assignment shall contain a reservation to Optionor of an overriding royalty of One percent (1%) and shall be substantially in the form of "Exhibit A" annexed hereto and made a part hereof.

5. This option shall be deemed to have been exercised when Optionee shall deposit in the United States mail, with postage thereon fully prepaid, a written notice of such exercise addressed to Optionor at 4231 Tyler Street, Fresno 2, California.

Thereupon Optionor will execute, acknowledge and deliver to Optionee an assignment, in quadruplicate, substantially in the form annexed hereto.

The exercise of this option with respect to a part only of the subject lands shall not exhaust Optionee's rights hereunder, but Optionee may, from time to time, during the option period, exercise said rights with respect to various parts of the subject lands.

6. Optionee may at any time surrender its right to acquire all or any part of the subject lands, and thereupon all rights and obligations hereunder with respect to the lands as to which said rights are surrendered shall cease.

7. Optionor agrees to pay or cause to be paid all rentals which become payable to the United States under said lease while this option remains in effect, and Optionee agrees to pay to Optionor an amount equal to such part of said rentals, if any, as is paid by Optionor for the second year of the term of said lease with respect to the lands remaining subject to this option at the time of payment by Optionor.

8. Time is of the essence hereof, and if said option is not exercised within the option period, this agreement shall thenceforth cease to be of any force or effect.

9. This agreement shall be binding upon and shall inure to the benefit of the heirs, administrators, executors, successors and assigns of the respective parties hereto.

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

Sallie Armstrong
SALLIE ARMSTRONG

OPTIONOR

THE TEXAS COMPANY

By G. R. Couper (SEAL)
Its Attorney-in-Fact

Attest: J. W. Davis
Assistant Secretary

OPTIONEE

The undersigned, Sidney J. Armstrong, husband of Sallie Armstrong, does hereby join in the foregoing option and agrees to be bound thereby to the full extent of her/his interest, if any, in the lease or lands referred to therein.

Dated this 1st day of March, 1954.

Sidney J. Armstrong

STATE OF CALIFORNIA)
: SS
COUNTY OF LOS ANGELES)

ON THIS 11th day of March, A.D. 1954, personally appeared before me, YVONNE E. REITZ, a notary public in and for Los Angeles County, G. R. Couper, known to me to be the person whose name is subscribed to the within instrument as the attorney-in-fact of The Texas Company and acknowledged to me that he subscribed the name of said corporation there-to, as principal, and his own name as attorney-in-fact, freely and voluntarily and for the uses and purposes therein mentioned.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the County of Los Angeles the day and year in this certificate first above written.

(Notarial Seal)

Yvonne E. Reitz
Notary Public in and for the County of
Los Angeles, State of California.
My Commission Expires May 21, 1957

STATE OF California)
: SS
COUNTY OF Fresno)

ON THIS 1st day of March, A.D. 1954, personally appeared before me, Hope Porter, a notary public in and for Fresno County, Sallie Armstrong and Sidney J. Armstrong, known to me to be the persons described in and who executed the foregoing instrument, who acknowledged to me that they executed the same freely and voluntarily and for the uses and purposes therein mentioned.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the County of Fresno, the day and year in this certificate first above written.

(Notarial Seal)

Hope Porter
Notary Public in and for the
County of Fresno, State of
California.

My Commission Expires: 4/15/56

NEVADA

ASSIGNMENT OF UNITED STATES OIL AND GAS LEASE
WITH RESERVATION OF OVERRIDING ROYALTY

THIS ASSIGNMENT, made this ___ day of ___, 19__., from-----, hereinafter called "Assignor," to THE TEXAS COMPANY, a Delaware corporation, hereinafter called "Assignee,"

W I T N E S S E T H :

THAT, WHEREAS, United States of America, as Lessor, and Assignor, as Lessee, made and entered into that certain oil and gas lease, serial number ___, dated as of ___, covering the following-described lands situated in the County of Eureka, State of Nevada, to-wit:

TOWNSHIP 28 NORTH, RANGE 51 EAST, M.D.B.&M.

Sec. 13: SE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$;
Sec. 24: E $\frac{1}{2}$ E $\frac{1}{2}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$;
Sec. 25: E $\frac{1}{2}$ E $\frac{1}{2}$, SW $\frac{1}{4}$ NE $\frac{1}{4}$;

AND containing 640.00 acres, more or less.

said lands being herein referred to as "subject lands;"

NOW, THEREFORE, Assignor, in consideration of ___ Dollars (\$ ___), receipt of which is hereby acknowledged, does hereby sell, assign, transfer and set over unto Assignee the leasehold estate created by the above-described oil and gas lease.

RESERVING, HOWEVER, unto Assignor an overriding royalty of One per cent (1%)

of the value of the oil, gas and other hydrocarbon substances produced from the subject lands (as such value is hereinafter defined), payable only in cash.

1. The value of the oil, gas and other hydrocarbon substances produced from the subject lands for the purposes hereof shall be the sum of the following:

(a) The value of all oil removed by Assignee from the subject lands at the available posted market price in effect at the well on the date the oil is so removed for the quantity and quality so removed, after making the customary adjustments or deductions for temperature, water and b.s. The value of oil lost through evaporation, leakage or otherwise, or used in operations under the subject lease, is not to be included. In ascertaining the value of oil which is not in a merchantable condition when produced, there shall be deducted the reasonable cost of dehydration or other treatment to render the same merchantable.

"EXHIBIT A"

(b) The net proceeds received by Assignee from the sale of gas from the subject lands (whether sold in its natural state or as residual dry gas after extracting gasoline therefrom). Gas blown to the air or used or consumed in operations under said lease or returned to subsurface formations or consumed in the operation of a gasoline extraction plant shall not be included. Gas treated at a gasoline extraction plant not owned or operated by Assignee and for which Assignee receives a royalty from the operator of such plant shall be deemed sold in its natural state for an amount equal to the market value of the royalty received therefor by Assignee.

(c) Forty percent (40%) of the market value at the extraction plant of all gasoline and other liquefied hydrocarbons which may be extracted and saved from gas from the subject lands at any plant owned or operated by Assignee.

(d) The full market value, at the plant where extracted, of all gasoline and other liquefied hydrocarbons which may be received by Assignee as a result of the processing of gas from the subject lands at any plant not owned or operated by it (if such processing is not on a royalty basis), less the amount paid by Assignee for such processing.

2. Said reserved royalty shall be payable monthly at the same time as the corresponding royalty is payable to the Lessor under said lease, and shall be payable to Assignor at _____, or to such other address as may be designated by Assignor, _____, heirs or assigns, in writing; provided, however, that in the event of any division of such overriding royalty, one person or corporation shall be named to receive and distribute the whole amount, thereby relieving the payor of any obligation to make a division thereof, and payments may be withheld by Assignee until such time as this condition has been complied with.

3. Assignee shall have the right to deduct from said reserved royalty a part of the taxes which may from time to time be levied or assessed on the assigned leasehold estate or on the petroleum mineral rights in the subject lands, and also a part of the severance or gross production or other taxes measured by the oil or gas produced from or allocated to the subject lands, the part of such taxes so to be deducted to bear the same ratio to the whole of such taxes that the moneys accruing to Assignor during the yearly period ending on the last day of the month of February next preceding the fiscal tax year for which such taxes are levied bears to the total value (ascertained in the manner aforesaid) of all oil or gas produced from the subject lands during the same period, after deducting from said total value the value of the royalties payable or deliverable to the United States under the terms of said lease with respect to the subject lands.

4. Assignee shall have the unrestricted right and power to modify said lease, in any particular, by agreement with the Lessor; provided, however, that if any or all of the subject lands shall be consolidated or incorporated with other lands into an appropriate drilling and operating unit under a unit or cooperative agreement which shall provide for an allocation to the several parts of said unit of all of the oil and gas produced from such unit, irrespective of whether such production is derived from subject lands or from other parts of such unit, then, in that event, the royalties reserved hereby as to such of the subject lands as may be included in such unit shall be calculated upon the value of the oil and gas so allocated to such part of the subject lands.

5. The foregoing reservation of an overriding royalty and all rights of Assignor by reason thereof shall absolutely cease and terminate if and when Assignee, or its assigns, shall relinquish all of its right, title and interest under said lease. If such relinquishment shall be of a part only of the subject lands, said overriding royalty as to such part shall terminate and expire, without, however, affecting the reservation of the overriding royalty with respect to the production obtained from the remainder of the subject lands.

6. Assignee agrees that it will offer to reassign said lease to Assignor, or in the event of _____ death, to _____, shall survive upon the occurrence of any of the following events:

(a) If, prior to the commencement of drilling operations on the subject lands, there shall remain not more than three (3) months before the expiration date of said lease.

(b) If, at any time prior to the production of oil or gas from the subject lands, Assignee shall desire to relinquish said lease to the United States.

7. In determining the expiration date of said lease for the purposes of the preceding paragraph, effect shall be given to any extension or renewal thereof theretofore obtained or to which Assignee may be entitled by virtue of an application pursuant to any applicable statute.

8. Such offer to reassign shall be made by written notice given by Assignee to the person entitled to receive such offer, as above provided. If not accepted within fifteen

(15) days after the actual or constructive receipt thereof by the offeree, it shall be deemed rejected. After rejection of said offer, Assignee may relinquish the said lease to the United States.

9. If such offer is accepted, Assignee will execute, acknowledge, and deliver to the person entitled as aforesaid, a good and sufficient instrument of reassignment of said lease in so far as it affects the subject lands.

10. If, at any time prior to the occurrence of an event requiring the making of an offer to reassign the lease in so far as it affects all of the subject lands and prior to the production of oil or gas from the subject lands, Assignee shall desire to relinquish to the United States its interest in a part only of the subject lands, it shall, be written notice to the person entitled to receive an offer to reassign, as aforesaid, offer to reassign said lease to such person as to such part of the subject lands, and if such offer is accepted within fifteen (15) days after the effective date thereof, and such partial reassignment is made, or if such offer is not accepted within said period and Assignee thereafter relinquishes such part of the subject lands to the United States, then, in either such case, the term "subject lands" shall thereafter refer only to the part retained.

11. Promptly upon receipt by the person entitled to a reassignment as aforesaid of any instrument of reassignment from Assignee, such person will file such instrument in the Bureau of Land Management and do all things required by law and regulations for obtaining official approval thereof. If such person shall fail or neglect for a period of thirty (30) days to comply with the provisions of this paragraph, Assignee may revoke said reassignment and execute and file the relinquishment which it could have filed if said offer had not been accepted.

12. Rentals which become payable to the United States before the date of a reassignment or relinquishment shall be paid by Assignee. Rentals which become payable after the date of a reassignment shall be paid by the person to whom assigned. The date of reassignment for the purpose hereof shall be the date of its receipt by the person to whom assigned.

13. Any notice required or permitted to be given by one party to the other or to or by _____, and any instrument required or permitted to be tendered or delivered by one party to the other, or to or by _____, may be so given, tendered, or delivered, as the case may be, either by making personal delivery thereof or depositing it in the United States Post Office in the State of California, with postage prepaid, registered and addressed to said party or to _____, as the case may be. Until written notice to the contrary, the respective addresses of the parties and of _____, for the purposes hereof, are as follows:

 The Texas Company
 Attention: Lands & Leases Division
 929 South Broadway
 Los Angeles 15, California

If Assignor shall predecease _____, then, unless Assignee shall have been given written notice of the death of Assignor, a notice mailed and addressed to Assignor, as above provided, shall be deemed to be notice to _____. If any such notice or instrument is sent by registered mail, it shall be deemed received at the expiration of forty-eight (48) hours from the time of deposit in the United States mail as aforesaid.

14. Assignor hereby warrants that _____ is the sole owner of said lease in so far as it covers the subject lands and has not sold, assigned, or transferred the same or any interest therein, or made or suffered any lien, or encumbrance thereon, and that said lease, in so far as it covers the subject lands, is not burdened with any overriding royalties or other obligations not stated in said lease.

15. The words "Drilling operations" as used in this instrument include, in addition to actual drilling, any work undertaken or commenced in good faith, if followed diligently and in due course by the construction of a derrick or other necessary structures for the drilling of an oil or gas well, and by the actual operations of drilling in the ground.

16. This agreement shall be binding upon and shall enure to the benefit of Assignor's heirs and assigns and to the successors and assigns of Assignee; provided, however, that the provisions hereof requiring Assignee to offer to reassign or to reassign under certain conditions, shall enure only to Assignor's benefit or to the benefit of _____ in the event of Assignor's prior death, and shall not be appurtenant to the reserved overriding royalty or pass with an assignment of said overriding royalty, and shall terminate with the deaths of Assignor and _____.

IN WITNESS WHEREOF, Assignor and Assignee have hereunto subscribed their respective names the day and year first hereinabove set forth.

 ASSIGNOR

THE TEXAS COMPANY

By _____

Its Attorney-in-Fact

Attest: _____

Assistant Secretary
 ASSIGNEE

_____, wife/husband of _____, does hereby consent to the foregoing assignment and to the extent of such interest as _____ may have in said leasehold, hereby joins in said assignment.

Dated this _____ day of _____, 19____.

Recorded at the Request of The Texas Co. by E. H. Brandt, Feb. 16, A.D. 1955 At 50 minutes past 3:00 P.M.

E. B. Crane--Recorder
 By Angela Evans--Deputy.