

File No. 32847

Lester C and Alpha L. Hotchkiss

to

OPTION AGREEMENT

The Texas Company

OPTION AGREEMENT

THIS AGREEMENT, made the 6th day of Dec. 1956, by and between LESTER C. and ALPHA L. HOTCHKISS, 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, Optionor is the Assignee under that certain oil and gas lease described as follows, to-wit:

Oil and gas lease dated December 1, 1954, from the United States of America, as Lessor, to Sallie Armstrong as Lessee, serial number Nevada 020044 covering, in addition to other lands, the following described lands in the County of Eureka, State of Nevada, to-wit:

TOWNSHIP 28 NORTH, RANGE 51 EAST, MDM

Sec. 13: E $\frac{1}{2}$ SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, Lots 3 and 4
 24: NE $\frac{1}{4}$ NW $\frac{1}{4}$, Lots 1, 2, 3 and 4
 25: SW $\frac{1}{4}$ NE $\frac{1}{4}$, Lots 1, 2, 3 and 4

containing 617.31 acres, more or less

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

NOW, THEREFORE, for and in consideration of the sum of Ten 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, for the sum of Ten Dollars (\$10.00), an assignment of 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 three (3) years from the date hereof, subject, however, to the overriding royalty reservation hereinafter referred to and upon the following conditions:

1. Any consideration received by Optionor, in accordance with said option, shall be retained by Optionor notwithstanding Optionee electing not to exercise said option.
 2. Optionor, shall within 45 days after the date of this agreement, forward said United States lease to Optionee, whereupon 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. The said assignment shall be dated as of the date of the exercise of this option and 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.
 4. In the event that said assignment is not made before the 90th day next preceding the last day of the primary term of said lease, if this agreement is then in effect and if Optionee shall request Optionor to apply for an extension of the said primary term as provided in Section 27 of the Act of February 25, 1920, as amended, or to exercise their preference right to a new lease under the provisions of Section 1 of the Act of July 1, 1942, or to take any other action which may be available to them under any statute hereafter enacted whereby the rights of the Lessee under said lease may be preserved or continued to Optionor after the expiration of said primary term, Optionor shall comply with such request, and the said option shall be applicable to any such renewal or extended lease or other rights until the expiration of said period ending three (3) years after the date 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 4239 Tyler Street, Fresno, 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 will 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 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.

THE TEXAS COMPANY

By G. R. Couper
 It's Attorney in Fact

Attest J. W. Davis
 Assistant Secretary

Lester C. Hotchkiss
 Lester C. Hotchkiss

Alpha L. Hotchkiss
 Alpha L. Hotchkiss
 Optionor

OPTIONEE

STATE OF CALIFORNIA)
 : SS.
COUNTY OF LOS ANGELES)

On THIS 2 nd day of January, 1957 before me, Charlotte M. Galland, a Notary Public in and for said County and State, residing therein, duly commissioned, and sworn, personally appeared G. R. Couper known to me to be the person who executed the within instrument on behalf of THE TEXAS COMPANY, A Delaware corporation, the corporation therein named, and whose name is subscribed to the within instrument as the attorney in fact of said corporation, and acknowledged to me that he subscribed the name of said corporation thereto as principal, and his own name as attorney in fact, and acknowledged to me that such corporation executed the same.

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

(Notarial Seal) Charlotte M. Galland
My Commission expires: July 25,1960 -Notary Public in and for said County & State

STATE OF CALIFORNIA)
 : SS.
COUNTY OF FRESNO)

On this 6th day of December, in the year nineteen hundred and fifty-six before, me, Hoep Porter, a Notary Public in and for the County of Fresno, State of California, residing therein, duly commissioned and sworn, personally appeared Lester C. Hotchkiss and Alpha L. Hotchkiss known to me to be the persons whose names are subscribed to the within instrument, and acknowledged to me that they executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

(Notarial Seal) Hope Porter
My Commission expires 4-16-60 Notary Public in and for the County of Fresno
State of California.

UNITED STATES
Department of the Interior
Bureau of Land Management

Office Nevada
Searial No. 020041
Date of Lease Dec. 1,1954

ASSIGNMENT AFFECTING RECORD TITLE TO OIL AND GAS LEASE

The undersigned, as owner of record title interest as hereinafter specified in the oil and gas lease designated above, for good and valuable consideration does hereby assign to THE TEXAS COMPANY, a Delaware corporation, 929 South Broadway, Los Angeles 15, California the right, title, and interest in and to the lands embraced in such lease as specified below, giving and granting to assignee rights and privileges as lessee in such lands, to the extent indicated, subject to the reservations of overriding royalties as herein noted:
Eureka County, Nevada

1. Lands requested by this assignment.

TOWNSHIP 28 N., R. 51 E., MDM
Sec. 13: E $\frac{1}{2}$ SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, Lots 3 & 4
24: NE $\frac{1}{4}$ NW $\frac{1}{4}$, Lots 1, 2,3 & 4
25: SW $\frac{1}{4}$ NE $\frac{1}{4}$, Lots 1,2,3 & 4

containing 617.31 acres, more or less.

- 3. Interest of assignor in such lands 100%
- 4. Extent of such interest conveyed to assignee 100%
- 5. Overriding royalty reserved herein to assignor 1%
- 6. Overriding royalties previously reserved Nonte

REQUEST FOR APPROVAL OF ASSIGNMENT

- The undersigned hereby requests approval of the above assignment and certifies as follows:
- 1. Assignee is a citizen of the United States. Corporation or other legal entity A Delaware Corporation
 - 2. Assignee's other interests direct and indirect in oil and gas leases and applications or offers therefor in the same State together with the acreage in this instrument do not exceed 46,080 chargeable acres, or 100,000 chargeable acres in Alaska.
 - 3. Assignee is 21 years of age or over, or if a corporation or other legal entity, is qualified as shown by statements attached hereto.
 - 4. Amount remitted: Filing fee, \$10.
 - 5. Compliance with the requirements of 43 CFR 192.100 and item 6 of the Instructions is made by the attachments hereto.

The undersigned agrees to be bound by the terms and provisions of said lease, provided the assignment is approved by the signing officer of the Bureau of Land Management, and further agrees that the obligation to pay any overriding royalties or payments out of production created herein, which, when added to overriding royalties or payments out of production previously created, and to royalty payable to the United States, aggregate in excess of 17 $\frac{1}{2}$ percent, shall be suspended when the average production per well per day averaged on the monthly basis is (a) as to oil: 15 barrels or less and (b) as to gas: 500,000 cubic feet or less, and that such suspension will apply separately to any zone or portion of a lease segregated for computing Government royalty.

It is hereby certified that the statements made herein are true, complete, and correct to the best of the undersigned's knowledge and belief, and are made in good faith.

Executed and witnessed this _____ day of _____ 1956.

Attest

Assistante Secretary
929 So. Broadway, Los Angeles, Cal.

THE TEXAS COMPANY
By _____
Vice President
929 So. Broadway, Los Angeles, Cal.

Assignment approved as to lands describddd in item 2 above, effective _____
THE UNITED STATES OF AMERICA

By _____

NOTE- 18 U. S. C. sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious, or fraudulent statements or representations as to any matter within its jurisdiction.

NOTE- This form may be reproduced provided that the copies are exact reproductions on one sheet of both side of this official form in accordance with the provisions of 43 CFR 192.141 (a).

INSTRUCTIONS

1. Use of Form.--This form is to be used only for assignment of record title interest in oil and gas leases. It is not to be used for assignments of working or royalty interest, operating agreements or subleases. The assignor must fill in items 1 to 5 inclusive, and also insert in the appropriate spaces the office, serial number, and effective date of the lease involved in the assignment. If less than all of the lands in the lease are assigned, the specific subdivisions involved must be shown.

2. Copies and Fees.--All record title assignments must be filed in triplicate in the proper land office. If the land is in a State in which there is no land office they must be filed with the Bureau of Land Management, Washington 25, D.C. Where more than one assignment is made out of a lease a separate instrument of Transfer for each assignment must be filed. An assignment may cover lands in only one lease. Assignments must be filed within 90 days from date of final execution and each must be accompanied by a fee of \$10. Such fee will not be returned even though the assignment later be withdrawn in whole or in part. Any assignment unaccompanied by the required fee will not be accepted.

3. Citizenship--An individual must show that he is 21 years of age or over and will indicate whether a citizen by birth or naturalization. If production is obtained under the lease or allocated to it, the citizenship status of the assignee will be verified.

4. Qualifications of Corporations.--If assignee is a corporation it must show it is qualified with respect to the citizenship provision by filing a copy of its articles of incorporation, certified to by the Secretary of the State of incorporation and it must furnish a statement showing the percentage of each class of its stock which is owned or controlled by or on behalf of persons whom the corporation knows to be or who the corporation has reason to believe are aliens, or who have addresses outside of the United States, indicating which classes of stock have voting rights. If more than 10 percent of the voting stock or if all of the stock is owned or controlled by or on behalf of such persons, the corporation must give their names and addresses, the amount and class of stock held by each, and, to the extent known to the corporation or which can be reasonably ascertained by it, the facts as to the citizenship of each such person. If any appreciable percentage of the stock of the corporation is held by aliens of the excepted class, its application will be denied. If 20 percent or more of the stock of any class is owned or controlled by or on behalf of any one stockholder, a separate showing of his citizenship and holdings must be furnished. A corporation also must furnish either the minutes of the meeting of the board of directors, or a copy of the bylaws indicating the officer signing the application has authority to do so, or a certificate of the Secretary or assistant secretary of the corporation to that effect over the corporate seal. Where a corporation has previously filed in any land office any of the documents required by this and the previous paragraph, a reference to that file by serial number may be made in lieu of the document together with a statement of any subsequent amendments. A single copy of any additional information required by the provisions of this and the preceding paragraph will be sufficient.

5. Payment Out of Production.--Any overriding royalties or payments out of production created by an assignment but not set out therein must be described in an accompanying statement. If payments out of production are reserved, outline in detail the amount, method of payment, and other pertinent terms.

6. Bonds.--Where an assignment is of an entire lease which is covered by an outstanding lease bond, it must be accompanied by a new bond or in lieu thereof the consent of the surety on the bond of record to remain bound thereunder with the assignee as the substituted principal. If an undivided lease interest is assigned, the assignment must be accompanied by the consent of the surety on the bond of the assignor to inclusion of the assignee as a joint-principal on the bond, or a new bond with assignor and assignee as joint-principals may be furnished. Any assignment which does not convey the assignor's record title in all of the lands in the lease must also be accompanied by consent of his surety to remain bound under the bond of record for the lease interest retained by said assignor, if the bond, by its terms, does not contain such consent. If a party to the assignment has previously furnished a Nation-wide bond on either form 4-1167 or 4-1168 applicable to the State and the act under which the lease issued, no additional showing is necessary by such party as to the bond requirement.

7. Lease Account.--All rentals and royalties due under a lease must be paid when an assignment is filed, or before the assignment is reached for action, otherwise the lease may be canceled.

8. Assignment of Separate Zone or Deposit.--An assignment of a separate zone or deposit or of a part of a legal subdivision will not be approved unless the necessity therefore is established by clear and convincing evidence which must accompany the request for approval of the assignment.

ADDITIONAL PROVISIONS OF ASSIGNMENT OF UNITED STATES OIL AND GAS LEASE

THE ASSIGNMENT of United States oil and gas lease, Serial No. Nevada 020044, dated December 1, 1954, to which this Exhibit "A" is attached is made subject to the following additional provisions:

1. The one percent (1%) overriding royalty reserved to assignor is paragraph 4 thereof shall be of the value of the oil, gas and other hydrocarbon substances produced from the lands assigned thereby, said lands being herein referred to as "subject lands," as such value is hereinafter defined, payable only in cash.

(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 by check mailed to Assignor at 4239 Tyler Street, Fresno 2, California, or to such other address as may be designated by Assignor, his 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 of 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 maybe 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 a part only of the subject lands, said overriding royalty as to such part shall terminate and expire, without, however, affecting lease to Assignor or in the event of his death, to Alpha L. Hotchkiss, if she shall survive Him, 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 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 any application filed 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 rejected 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, by 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 purposes 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 Alpha L. Hotchkiss and any instrument required or permitted to be tendered or delivered by one party to the other, or to or by Alpha L. Hotchkiss, 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 Alpha L. Hotchkiss as the case may be. Until written notice to the contrary, the respective addresses of the parties and of Alpha L. Hotchkiss, for the purposes hereof, are as follows:

Lester C. Hotchkiss
4239 Tyler Street
Fresno 2, California

THE TEXAS COMPANY
 Attention: Lands & Leases Division
 929 South Broadway
 Los Angeles, California

If Assignor shall predecease Alpha L. Hotchkiss, 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 Alpha L. Hotchkiss. 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 he 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 Alpha L. Hotchkiss 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 death of Assignor and Alpha L. Hotchkiss.

IN WITNESS WHEREOF, Assignor and Assignee have hereunto subscribed their respective names to said Assignment, upon Form 4-1175, and upon these additional provisions this ____ day of _____, 195__.

THE TEXAS COMPANY

By _____
 Vice President

-Attest: _____

Assignor

Assistant Secretary
 Assignee

ATTACHMENT TO REQUEST FOR APPROVAL OF ASSIGNMENT
OF UNITED STATES OIL AND GAS LEASE

Serial No. Nevada 020044

Date of Lease December 1, 1954

A certified copy of the Articles of Incorporation of Assignee, and all amendments thereto, has been duly filed and reference is hereby made to Serial Number Las Cruces 029519-B (Beulah V. Lynch).

A showing has heretofore been made with respect to the residence and citizenship of Assignee's stockholders and the ownership of Assignee's stock and reference is hereby made to your file Miscellaneous Serial No. 1877851.

A nation-wide oil and gas bond No. 307046 in the amount of 150,000.00 has heretofore been filed by Assignee with the Bureau of Land Management under Las Cruces 029519-B (Beulah V. Lynch).

Recorded at the Request of The Texas Company, Jan. 21 A.D. 1957, At 40 minutes past 3 P.M.
 E. B. Crane, Recorder.
 By Marian Herrera, Deputy.