

Section 4. That upon discovery of oil or gas in paying quantities upon any of said lands, the Contractor, in the name of the Owners, shall apply to the Secretary of the Interior for a lease thereon upon such royalty as the Secretary may fix, and shall thereafter take all necessary steps to obtain the granting of such lease and any necessary renewals thereof.

Section 5. (a) It is understood by the parties hereto that subsequent to the filing of applications by the Owners for permits covering the lands the subject of this agreement, and other lands, but before this issuance of said permit said lands were classified as lands within the geologic structure of a proven field, and it is the opinion of the parties hereto that such classification was erroneous and not justified, since said lands at that time were not productive of oil or gas in quantities sufficient to warrant such classification; and it is the belief of the parties hereto that such classification can be removed, and it is understood that the provisions of this agreement proceed upon the theory that upon proper showing being made to the officials of the Department of the Interior, such classification may be removed, and that as a result of such showing it will be found and held that at the time of the filing of said applications for permit and at the date of the issuance of said permit, said lands were of the kind and character subject to Government royalties provided for lands embraced in permits issued under and pursuant to Section 13 of said Act. in which event any lease which hereafter may be issued to the Owners covering said lands should, and in all probability will, bear royalties as provided for lands embraced in permits issued under Section 13 of said Act.

(b) It is also understood that the provisions of this contract as to the payment of royalties by the Contractor to the Owners are based upon the assumption that unless such classification is removed or the said lands declared by the Government of the United States to be of the kind and character subject to Government royalties provided for lands embraced in permits issued under Section 13 of said Act, or unless terms as to royalties can be obtained more favorable, to the Owner than those provided for in Sub-division (c) of Section 19 (page 23) of the Rules and Regulations (reprint as amended to October 29, 1920, Circular No. 672) prescribed by the Secretary of the Interior for the administration of said Act, and the "tables for computing oil royalties under the Leasing Act of February 25, 1920, issued by the Department of the Interior, Albert B. Fall, Secretary, Bureau of Mines, H. Foster Bain, Director, prepared by H. C. Patterson and D. W. Moran, Washington Printing Office, 1921," any lease or leases to be issued by the Government of the United States covering said lands will bear the royalties provided for by Sub-division (c) of said Section 19, and will reserve to the Government of the United States the royalties prescribed in said tables.

(c) That at its own expense, employing such attorneys as may be necessary therefor, the Contractor shall make a good faith effort to have the lands the subject of this agreement reclassified or declared to be of the character subject to the Government royalties provided for lands embraced in permits issued under and pursuant to Section 13 of said Act; and, if successful in its said efforts, any and all saving in royalties accomplished as a result thereof by way of reduction in the amount of royalties which otherwise would have been charged by and payable to the Government under the provisions of said Sub-division (c) of Section 19 of said Rules and Regulations and said tables for computation of royalties, shall be divided between the Owners and the Contractor on the basis of Fifty per cent (50%) thereof to the Owner of Fifty per cent (50%) thereof to the Contractor. If, however, the Contractor's efforts to have said lands declared to be of the character subject to Section 13 permit royalties shall fail, then the Contractor shall in good faith endeavor to obtain the greatest possible reduction in the royalties which otherwise would be charged by and payable to the Government under the provisions of said Sub-division (c) of Section 19 of said Rules and Regulations and said tables for computation of royalties, and if successful in securing any reduction, any and all saving in royalties resulting from such reduction shall be divided between the Owners and the Contractor on the basis of Thirty-five per cent (35%) thereof to the Owners and Sixty-five per cent (65%) thereof to the Contractor.

The Owners' proportion of the Royalties so saved under the provisions of this paragraph shall be in addition to the royalties which shall belong to the Owners under the provisions of paragraph 4 of Article 1 of this agreement, and nothing herein contained shall be construed in any event or in any manner to reduce the royalties to which the Owner is entitled under the provisions of said paragraph 13.

Section 6. It is understood that the Contractor now has negotiations pending with the Cretaceous Oil Company looking to the development of a part of the lands belonging to said Cretaceous Oil Company, located on the same structure upon which are located the lands embraced in the permit so issued to the Owners; and it is also understood that if the Contractor shall fail to consummate said deal with said Cretaceous Oil Company, then and in that event the Contractor shall within thirty days after said negotiations have terminated, surrender and relinquish to the Owners all rights under this agreement and thereupon the mutual rights and liabilities of the parties hereto under this agreement shall terminate.

ARTICLE III.

Section 1. That nothing herein contained shall be construed as being in any manner in derogation of any of the terms, conditions or provisions of the Act of Congress under and by virtue of which said permit was issued, or any regulations of the Department of the Interior of the United States lawfully promulgated thereunder; but, on the contrary, this agreement shall in all particulars be deemed amenable to reformation to eliminate or modify any portions thereof found to be in contravention of the provisions of said Act or such regulations or against public policy, and shall remain and be in full force and effect as to all provisions not so eliminated or modified.

Section 2. That this agreement and each and every of its terms, provisions and conditions shall be binding upon and inure to the benefit of the heirs, personal representatives, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties of the first part have hereunto affixed their hands and seals, and the party of the second part has caused this instrument to be executed by its proper officers, thereunto duly authorized, the day and year first above written. Done in duplicate.