

deemed and construed to be a full compliance with the drilling obligations of the Contractor hereunder as to the test well provided for in this paragraph.

4. That if oil or gas shall be discovered upon the lands subject of this agreement in commercial quantities, the Contractor, subject to its right of surrender in Paragraph 14 of Article I contained, shall continue in possession of said lands, and, consistently with the then prevailing condition of the market for crude petroleum, and with due diligence, shall at its own expense supply the necessary equipment, casing, material, etc., and drill such additional wells on the lands the subject of this agreement as may be necessary for the development of the same.

5. That the Contractor shall keep books containing all production data as to the lands the subject of this agreement and the distribution of oil and gas therefrom and proceeds thereof, and said books shall be open during all reasonable hours to the inspection of the duly authorized agent or agents of the Owner, and the Contractor shall furnish to the president of the Owner monthly statements of all oil and gas produced from the lands the subject of this agreement, and upon the request of the Owner therefor, shall supply to the Owner a copy of any and all records pertaining thereto; PROVIDED, that the Owner and said third parties shall have the right to employ at its and their own expense and maintain upon the lands the subject of this agreement one or more checkers or gaugers, who shall have access to the property and to the wells where production is obtained at any and all reasonable times, and shall be permitted by the Contractor to check and gauge for the Owner the amount of production of oil and/or gas being obtained therefrom by the Contractor.

6. The Contractor shall bear the expense and costs incurred in preparing and serving notices of cancellation upon any person who may heretofore have held leases or contracts affecting the lands the subject of this agreement, and which are subject to cancellation and forfeiture.

7 (a) It is understood by the parties hereto that subsequent to the filing of applications by the Owner for permits covering the lands the subject of this agreement, and other lands, but before the issuance of said consolidated 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, and especially those contained in Paragraph 13 of Article I hereof, 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 consolidated permit, said lands were of the kind and character subject to Government royalties provided for in permits issued under and pursuant to Section 13 of said Act, in which event any lease which hereafter may be issued to the Owner covering said lands should, and in all probability will, bear royalties as provided for 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 Owner, 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 R. 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 the royalties prescribed in said tables. /of the United States

(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 Owner and the Contractor on the basis of Fifty per cent (50%) thereof to the Owner and 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 Owner and the Contractor on the basis of Thirty-five per cent (35%) thereof to the Owner and Sixty-five percent (65%) thereof to the Contractor, and nothing herein contained shall in any event or in any manner be construed to reduce the royalties to which the Owner is entitled under the provision of said Paragraph 13, of Article I hereof.

The Owner's proportion of the royalties so saved under the provisions of this paragraph shall be in addition to the royalties which shall belong to the Owner under the provisions of paragraph 13 of Article I 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.

8. That upon discovery of oil or gas in commercial quantities upon any of the lands the subject of this agreement the Contractor shall have and is hereby given the right to select and designate that part of the above described lands as to which applications shall be filed for a lease at the Government minimum royalty, and upon being advised of