

the receipt of which is hereby acknowledged, and for other good and valuable considerations,
IT IS AGREED:

ONE

The Permittee warrants that he is the sole and absolute owner of said application for permit; that neither said application nor such permit as may be granted in pursuance thereof is subject to any prior sale, assignment, operating agreement, royalty, rental, financial burden, restriction, condition or obligation of any kind or character other than those imposed by the United States by law, regulation or the provisions of said permit except as hereinbelow in this paragraph specifically set out, to wit:

The Permittee agrees to take all necessary proceedings at Permittee's own cost to defend the Permittee's title and ownership of said application and such permit as may be granted in pursuance thereof as herein warranted and in default of the Permittee's so doing it shall be lawful for the Operator in the name of the Permittee to take all necessary proceedings to defend the same and to apply royalties payable hereunder to the full payment of the costs of defending the same and in reimbursement of the costs and expenses of the Operator for such purpose or the Operator may by notice in writing determine this agreement.

TWO

The Operator shall, during the life of such permit as may be issued in pursuance of such application have the sole and exclusive right to drill upon said lands as well (or such additional wells as the Operator shall deem proper) for the discovery of oil and/or gas thereon. And if oil and/or gas shall be discovered so as to entitle the Permittee to a lease the Operator shall have, during the life of said permit and also during the term of the primary and secondary oil and gas leases, and all renewals thereof, issued by the United States as a result of such discovery, the sole and exclusive right to develop and operate said lands for oil and/or gas and to produce therefrom oil and/or gas.

It is understood that the Operator shall have full and complete charge and control of all operations upon said lands, and/or for the development of the oil and/or gas resources of said lands, and that the obligations of the Operator under this agreement to drill shall at all times be subject to any plan of group or unit exploration, development or operation which may be approved by the Secretary of the Interior of the United States with respect to the lands embraced within said permit or leases and shall also be subject to and consistent with then prevailing market and transportation conditions and subject to any State or Federal field production, limitation or control.

Said permit shall be deemed alive not only during its initial term of two years and during any express extension of said permit, but also during the entire time when said permit shall be of any force or effect, whether by sufferance of the Secretary of the Interior or otherwise.

By the "primary lease" is meant the lease covering one hundred and sixty (160) acres or one-fourth ($\frac{1}{4}$) (whichever is greater), of said lands and under which the royalty to the United States is five per cent (5%) of the production. By the "secondary lease" is meant the lease covering the rest of said lands, and under which the royalty to the United States is twelve and one-half per cent (12 $\frac{1}{2}$ %) or more of the production.

All oil and/or gas and the proceeds thereof produced from said lands and/or allocated or attributed to said lands under a plan of group or unit development approved by the Secretary of the Interior remaining after the payment of royalties reserved by the United States and by the Permittee, and such other royalties, if any, as are specified in Paragraph One hereof shall belong to the Operator as its full compensation for its expenditures in drilling upon or for said lands and producing oil and/or gas therefrom and/or attributable thereto and rendering the other services required of it hereunder.

THREE

The Permittee agrees that he will not withdraw said application or surrender or relinquish said permit, or the primary or secondary leases, or any renewal thereof (which primary and secondary leases are hereinafter in this agreement generally referred to merely as the leases) without the consent of the Operator; that he will not commit any act which will furnish cause for forfeiture or cancellation thereof; that immediately upon the receipt of any notice or communication pertaining thereto from the Department of the Interior, he will by registered mail or telegraph transmit such notice or communication, or a copy thereof, to the Operator at its principal office; that upon request of the Operator he will apply for such extension or extensions of said permit (including the extension or extensions contemplated in Paragraph "Eight (a)") as the Operator shall desire and (after a discovery of oil and/or gas upon or for said lands) for the leases thereon, and for such renewal or renewals thereof as the Operator shall desire, and will do any and all things which are necessary or proper to procure such extension or extensions of said permit, and to procure such leases and such renewal or renewals thereof. The Operator shall have the right to designate the lands to be covered by the primary lease, and the application filed therefor shall conform to the Operator's designation. The Operator shall reimburse the Permittee for the actual proper expenses incurred by the Permittee in complying with this paragraph. Should the Permittee fail or refuse to apply for any extension of said permit or for the leases, or any renewal thereof, in compliance with the Operator's request, the Operator (or any person by it substituted) is hereby given and vested with full right, lawful power, and complete authority as agent and attorney-in-fact of the Permittee to make such application or applications and to do such other things (including the making of affidavits, the execution of bonds, and the signature and acknowledgment of leases) as are necessary or proper to procure such extension or such leases or any renewal thereof which right, power and authority, being coupled with an interest, shall be and are hereby made irrevocable during the life of this agreement, and shall inure to the benefit of any legal representative, successor or assignee of the Operator in or of its rights under this agreement.

It is understood that the present Federal and State policy and legislation relating to oil and gas development and production contemplate group or unit development of oil and gas structures and controlled and limited production and the permittee hereby specifically and irrevocably for the life of this agreement grants the Operator the full right and authority to represent the acreage covered by this agreement, on behalf of the Permittee as well as the Operator, in the negotiating, accepting or approving of any plan of group or unit exploration or development or operation and in any matters affecting the control or limitation of production from said lands and from the structure and field within which the same are located, and the Permittee hereby agrees to abide by and on request to consent in writing to any such plan of unit or group exploration or development or operation which shall be acceptable to and meet with the approval of the Secretary of the Interior of the United States. The Operator agrees, however, to mail to the Permittee at the Permittee's last known address a copy of any