

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants of the parties hereto, and of the sum of One Dollar (\$1.00) paid to the "Lessee" by the "Operator", the receipt of which is hereby acknowledged, and for other good and valuable considerations,

IT IS AGREED:

1. "Lessee" hereby represents and warrants that he is the holder, without encumbrance, of the entire interest in said permit, and further represents and warrants that said permit is in good standing and not in default for failure to comply with the conditions thereof;

2. "Lessee" hereby grants and conveys unto "Operator" his heirs, successors and assigns, but subject to the conditions noted herein, full right to enter upon, occupy, develop and operate said lands hereinabove described for oil and gas, including the management and control of said lands and the right to market said products, and "Operator" agrees to develop and operate said lands for oil and gas, in accordance with the provisions of this agreement.

3. Subject to the right of surrender as hereinafter defined, the "Operator" agrees that he will, at his sole cost and expense, comply with and perform each and every obligation and requirement of said permit, so far as it pertains to the lands the subject of this agreement and any orders issued by the controlling legal authority, including the posting of all necessary bonds to the United States of America, and any renewals thereof or any lease or leases issued pursuant to said permit; and further agrees that he will, at his sole cost and expense, commence or cause to be commenced the actual drilling of a well at some location upon the above described lands for the production of oil and gas on or before August 1, 1939, and shall diligently and continuously prosecute drilling operations to a depth necessary to test the known productive sands or horizons in said lands; and after the discovery of oil or gas shall develop said lands in accordance with good oil field practice and to meet the requirements of well-drilling and well-spacing of the United States Geological Survey.

4. "Operator" shall pay or deliver all royalties due to the United States, and further agrees to pay over-riding royalties, as follows:

(1) On Production from lands on which the Government royalty shall not exceed five percent (5%):

(a) To "Lessee" . . . . . Ten Percent (10%)

(2) On Production from lands in which the Government royalty is more than five percent (5%):

(a) To "Lessee". . . . . Three and One-half Percent (3 ½%)

It is understood that the above mentioned royalties payable to "Lessee" shall cover and include all royalties payable by operator over and above the royalties payable to the United States. Said royalties shall be paid from the gross proceeds received from the sale of all oil and gas produced, saved and marketed (except as much as is used for operating, production and repressuring purposes or unavoidably lost) from the lands hereinabove described. Said royalties shall be computed and paid on the basis of the prevailing field market price in the field where such oil and gas are produced, at the time of production, for oil and gas of like grade and gravity; provided that no royalties shall be paid on gas produced in the absence of a market therefor; in case there is a market for gas produced, the royalties thereon and on natural-gas gasoline shall be computed and paid on the following basis:

On Gas;;

On the basis of the field market price thereof at the well;

On Natural-Gas Gasoline:

On the basis of one-third of the value of the natural-gas gasoline extracted and sold from the natural-gas produced; and

said royalties shall be paid each month on account of production during the preceding calendar month, such payments to be accompanied with a statement of the production and the price thereon on the bases of which such royalties are computed; and "Operator" shall not be required to take cognizance of any assignment or transfer of royalty or interest therein, unless and until "Operator" shall have been furnished with satisfactory evidence of such assignment or transfer. Before computing the amount of any over-riding royalties payable to "Lessee" "Operator" shall have the right to deduct from the value of the oil and gas or the proceeds thereof on which such over-riding royalty is computed, the full amount of any taxes (including production tax) required to be paid on such oil and gas.

4. All oil or gas and the proceeds thereof produced from said lands remaining after the payment of royalties reserved by the United States and by the "Lessee" shall belong to the "Operator" as his full compensation for his expenditures in drilling upon or for said lands and producing oil or gas therefrom and attributable thereto and rendering the other services required of him hereunder.

5. "Operator" while in no default hereunder as to all or any part of the above described land, may at any time upon payment of Ten Dollars (\$10.00) surrender to "Lessee" by proper recordable instrument, all rights and estate of "Operator" vested in it hereunder, and delivery to "Lessee" of such instrument, sufficient in form and substance to revert in "Lessee", all rights and interest granted to "Operator" hereby, shall terminate all further obligations of "Operator" hereunder, except as to any then unsatisfied claims or causes of action in favor of "Lessee" and accrued as against "Operator" during the period prior to the tender of such surrender instrument; subject to the exception noted, "Operator" shall have the right for a reasonable period following delivery of such instrument, to remove its property from "Lessee's" premises, provided that no such removal shall be to the detriment of sub-surface conditions and that all such shall be in full compliance with requirements of all legal authorities with jurisdiction, including, but not restricted to those governing plugging and other abandonment phases. No such surrender instrument shall be permitted or effective unless upon the date of its tender, an ample period of time will thereafter remain available to "Lessee" for its performance of conditions as required to prevent forfeiture of or prejudice to, its leasehold estate. In case "Lessee" cannot, within sixty days following tender of any such re-assignment-surrender, qualify to receive same, "Operator" may surrender direct to the United States.