

quitclaimed (except that the Lessee may continue to enjoy such easements on the surrendered premises as may be in use at the time of the surrender) and the drilling requirements hereunder shall be reduced pro rata according to acreage retained by the Lessee. Except as herein provided, full right to said land shall vest in the Lessor free and clear of all claims of the Lessee, except that the Lessor, his successors or assigns, shall not drill any well on said surrendered land within 330 feet of any producing oil well or within 660 feet of any gas well on land retained by Lessee.

6. In the event of the discovery of oil in any well on adjacent properties within one hundred fifty feet of the boundary line of the demised premises, and the production of oil therefrom in paying quantities as herein defined, then the next well to be drilled hereunder shall be so placed to offset said well on the adjacent property; or, if no well is being drilled and the total well requirements of this lease have not been fulfilled, then within ninety days thereafter a well shall be commenced by the Lessee to offset such producing well on the adjacent property. It is agreed that a well on demised premises shall be construed to be an offset to one or more wells on adjacent properties if such well is located at a distance not greater than one hundred fifty feet from the boundary line between the herein leased premises and the land containing the well or wells to be offset and at a distance not to exceed one hundred fifty feet from either side of a line drawn from a well so to be offset through the nearest point in said boundary line; provided that a well then producing or drilling on demised premises within one hundred fifty feet of the offset location herein defined shall be construed to fulfill this offset provision. The obligation to offset wells shall be applicable only to the exterior boundary lines of the demised property and the offset obligation shall not be increased by reason of any division of ownership of demised property by Lessor which may occur during the life of this lease, or present existing multiple ownership.

7. Drilling and/or producing operations may be suspended or curtailed on said property only in the event that they are prevented by the elements, accidents, strikes, lockouts, riots, delays in transportation, conservation or curtailment agreements, or interferences by municipal, state or federal action, or the action of other governmental officers or bodies, or other causes beyond the reasonable control of Lessee, whether similar or dissimilar to the causes herein specifically mentioned, and when there is no market for the oil, or so long as the established and posted market price offered by the major oil purchasing companies for oil of the quality produced on said premises, in the district in which the premises are located, shall be less than seventy-five cents per barrel at the well. The Lessee is hereby authorized by Lessor to enter into conservation and curtailment agreements with other operators for the purpose of preventing waste or for the conservation of oil and/or gas, when such agreements are required or permitted by state or federal officials or statutes; provided that any such agreed curtailment shall be at no greater pro rata percentage per well or location on demised premises than that on offset acreage where offset wells are producing or drilling.

8. It is expressly understood and agreed that the consideration expressed herein shall include all rental for the first year of the term hereof. Commencing with the second year of the term hereof, if the Lessee has not theretofore commenced drilling on said land or terminated this lease, as herein provided, the Lessee shall pay or tender to the Lessor in advance as rental, the sum of one dollar (\$1.00) per Acre until drilling is commenced on said land or this lease terminated as herein provided. The payment of the foregoing rental by the Lessee shall secure to the Lessee the privilege of deferring the commencement of drilling operations for a period of twelve (12) months. In like manner and upon like payments or tenders at the beginning of succeeding years, the beginning of drilling operations may be further deferred for like periods successively for a term of four (4) years. All payments or tenders may be made by check or draft of Lessee or any assignee thereof mailed or delivered to Lessor or Lessor's agent on or before the rental paying date. It is the intent hereof that rentals shall not be paid except for the purpose of deferring the commencement of drilling operations.

9. The Lessee shall be entitled to use, without payment of royalty, so much of the water, oil and/or gas produced on said property as may be required in the operation of the property. If Lessee uses electrical equipment in the operation of the property after development of oil and/or gas in paying quantities and, by reason of such use, markets the free fuel to which Lessee is entitled, the Lessee is hereby authorized to deduct monthly from any royalty payments accruing to Lessor a sum equal to one-eighth part of the monthly power bill incurred in the operation of the property, but in no event shall said deduction exceed in amount the sale price of Lessor's proportionate part of said free fuel marketed, nor shall Lessor be liable for any part of the cost of installation and upkeep of said equipment.

10. The Lessee shall pay to the Lessor as royalty on oil, a sum equal to one-eighth of the market price of all oil produced and sold by it from said premises, which market price it is hereby agreed shall be the published offered price by the major oil purchasing companies for oil of like quality and gravity, at the well in the district in which the demised premises are located, on date of delivery of the oil from Lessee's gauge tanks. If the oil be unsaleable at such price, the Lessee shall so notify Lessor and the Lessor shall thereupon immediately, and in lieu of cash, accept his royalty in kind at the well or tank provided by Lessee. Upon failure of Lessor to so accept his royalty oil, it shall, without further notice to Lessor, be sold with Lessee's oil, if and when Lessee's oil is sold, and the price received therefor by Lessee shall be the price used in settlement under this paragraph. In the event the oil requires treatment or dehydration to render it marketable, the Lessee is hereby authorized to deduct from the amount due the Lessor, the Lessor's proportion of the cost of transportation to and from the treating plant, if same is located off the premises, and of such treating or dehydrating.

11. The Lessee shall be under no obligation to store or sell gas or water, nor to manufacture gasoline from natural gas. If any gas or water is sold, the Lessee shall pay to the Lessor one-EIGHTH of the proceeds of sale of such gas or water, after deducting the cost of producing, transporting and selling the same. If casinghead gasoline is manufactured or extracted on the premises, or elsewhere, by Lessee, or others under contract, or lease on a royalty basis, from gas produced from wells on said premises, the Lessee reserves the right and option to add such gasoline to the oil produced on the premises, in which case it shall be classed as crude oil and no separate accounting or settlement shall be required of Lessee, if sold as gasoline, then the Lessee shall pay to Lessor one-EIGHTH of such royalty or proceeds received by Lessee from the sale thereof, after deducting the cost to Lessee of extracting, transporting and selling the same. Provided, however, the Lessee reserves the further right and option to pay to Lessor the sum of Six cents per thousand cubic feet of gas produced and metered on the premises, when such gas is sold,