

or is processed for the extraction of gasoline, such payment to be in full for Lessor's interest in said gas, and to be in lieu of specific royalties for gas and gasoline in this paragraph hereinbefore mentioned, the exercise of such option, or subsequent reversion, to be by notice in writing to Lessor.

12. Lessee shall pay all taxes on its personal property and improvements and on all oil stored on the leased premises on the first Monday of March in each year, and one-eighth of the increase of taxes on such portion of the leased premises as remains covered by this lease on said day, when such increase is caused by the discovery of oil thereon, whether assessed upon said land as increased valuation or as mineral rights or otherwise, and whether assessed against the Lessee or Lessor; and the Lessor hereby agrees to pay the remaining portion of such increased assessment. The Lessee is hereby authorized to pay the total amount of taxes assessed on said land, improvements, mineral rights and stored oil and deduct the Lessor's proportion thereof from the amount of any rentals or royalties which may accrue to Lessor.

13. All royalty monies accruing to Lessor under Paragraphs 10 and 11 hereof for deliveries or sales during any calendar month shall be delivered to Lessor on or before the 20th day of the next succeeding month by paying the amount into the State Bank of Big Piney Bank at Big Piney, Wyoming, which bank is hereby designated the depository of Lessor, and such payment into said bank for the account of Lessor shall relieve the Lessee from any liability or obligation in the proper distribution thereof among the Lessors, whether one or more.

14. The term "paying quantities" wherever used herein is hereby defined as the output from a well or wells of such quantity of one or more of the products authorized to be produced under this lease as Lessee may, considering depth of well and quality of product and after a production test of thirty (30) consecutive days, deem sufficient to warrant further operations for its removal.

15. Lessee shall carry on all operations in a careful, workmanlike manner, and in accordance with the laws of the State of California. Lessee shall keep full records of the operations and production and sales or shipments of products from said property, and such records and the operations on the property shall be at all reasonable times open to the inspection of the Lessor. Whenever requested by the Lessor, in writing, the Lessee shall furnish to the Lessor a copy of the log of any well drilled on said property.

16. The Lessor shall have the right to the use of the surface of said land for agricultural, horticultural and grazing purposes to such an extent as will not interfere with the rights granted to the Lessee herein. The Lessee agrees to conduct its operations so as to interfere as little with the use of the land for agricultural, horticultural or grazing purposes as is consistent with the economical operation of the property for oil, and agrees to pay for any damage to growing crops which may be done through its negligence. If any of the fences existing on said lands are cut by the Lessee for its purposes, the Lessee shall establish a good and substantial gate at such point. Whenever requested by the Lessor in writing, the Lessee shall fence all sump holes and other openings to safeguard cattle which may be grazing on said land.

17. The Lessor may have the use for his domestic purposes of any water or gas developed on said property, so long as such water or gas is not required by the Lessee or sold. Delivery of same shall be taken at a point to be indicated by the Lessee and it shall be transported to the point of use at the cost and sole risk of the Lessor.

18. The Lessee shall have at any time the right to remove any houses, tanks, pipe lines, structures, casing or other equipment, appurtenances or appliances of any kind brought by it upon said land, whether affixed to the soil or not; provided, however, that in case of the abandonment of any well in which Lessee has landed casing if the Lessor shall desire to retain the same as a water well, he may notify the Lessee to that effect, and thereupon the Lessee shall leave in the well such of said casing as the Lessor shall require, and the Lessor shall pay to the Lessee fifty per cent (50%) of the cost to Lessee of such casing delivered on the ground.

19. In the event of any breach of any of the terms or conditions of this lease by the Lessee, and the failure to remedy the same within ninety days after written notice from the Lessor so to do, then, at the option of the Lessor, this lease shall forthwith cease and determine, and all rights of the Lessee in and to said land be at an end.

20. Notwithstanding any forfeiture of this lease, the Lessee shall have the right to retain any and all wells being drilled, or producing or capable of producing oil or gas in paying quantities, at the time of such forfeiture, together with the aforesaid easements and appurtenances of said wells and sufficient land surrounding each well for the operation thereof, The wells so retained shall be subject to all the terms and conditions of this lease.

21. In case any action is brought at law or in equity by third parties claiming title to the land, in hostility to the Lessor, then, during the pendency of said action, until final decision thereof, the Lessee may discontinue operations on said lands, or if it operates wells, may deposit the royalties accruing under this lease in any national bank in the City of Los Angeles to the joint account of the Lessor and Lessee.

22. Any notice from the Lessor to the Lessee must be given by sending the same by registered mail addressed to the Lessee at 122 South Hill Street, Los Angeles, California, and any notice from the Lessee to the Lessor may be given by sending the same by registered mail, addressed to Carl P. Larson, at who is hereby designated as agent of Lessor. Either party, or the assigns of either party, may at any time, by written notice to the other party, change the address to which notices shall be sent and the Lessor may change the designated agent, and after such written notice to either party by the other, by registered mail, all subsequent notices shall be sent to the address therein indicated and to the substituted agent of Lessor.

23. All material furnished or work done on said land by the Lessee shall be at the Lessee's sole cost and expense, except as herein otherwise provided, and Lessee agrees to protect said land and the Lessor from all claims of contractors, laborers and material men, and Lessor may post and keep posted on said land such notices as he may desire in order to protect said lands against liens.