

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, 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, pipelines, 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