

SEQ. 2. In consideration of the foregoing, the lessee hereby agrees:

(a) Bond.--To furnish prior to beginning of drilling operations and maintain at all times thereafter as required by the lessor a bond in the penal sum of \$5,000 with approved corporate surety, or with deposit of United States bonds as surety therefor, conditioned upon compliance with the terms of this lease; and, until such bond is furnished, to submit and maintain a bond in the sum of \$1,000 with acceptable surety, similarly conditioned. The requirement made herein for the filing of a \$1,000 bond shall apply only in those cases in which a bond is required by law for the protection of the owners of surface rights. In all other cases the \$1,000 bond must be filed not less than 90 days before the due date of the next unpaid annual rental, but this requirement may be successively dispensed with by making payment of each successive annual rental not less than 90 days prior to its due date. In the absence of the payment of the rental in advance as herein authorized, the requirement for the filing of the bond within the time prescribed must be complied with strictly and upon the failure of the lessee to comply therewith the lease shall be subject to cancellation by the Secretary in accordance with the provisions of the lease and the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 21, 1935 (49 Stat. 674). Nothing herein contained shall operate to relieve the lessee from the obligation to furnish a \$5,000 general lease bond prior to beginning drilling operations.

(b) Cooperative or unit plan.--Within 30 days of demand, or if the land is within an approved unit plan, in the event such plan is terminated prior to the expiration of this lease, within 30 days of demand made thereafter, to subscribe to and to operate under such reasonable cooperative or unit plan for the development and operations of the area, field, or pool embracing the lands included herein as the Secretary of the Interior may determine to be practicable and necessary or advisable, which plan shall adequately protect the rights of all parties in interest, including the United States.

(c) Wells: (1) To drill and produce all wells necessary to protect the leased land from drainage by wells on lands not the property of the lessor or lands of the United States leased at a lower royalty rate, or in lieu of any part of such drilling and production, with the consent of the Secretary of the Interior, to compensate the lessor in full each month for the estimated loss of royalty through drainage in the amount determined under instructions of said Secretary; (2) at the election of lessee, to drill and produce other wells in conformity with any system of well spacing or production allotments affecting the field or area in which the leased lands are situated, provided such system is authorized and sanctioned by applicable law or by the Secretary of the Interior; and (3) promptly after due notice in writing, to drill and produce such other wells as the Secretary of the Interior may require to insure reasonable diligence in the development and operation of the property.

(d) Rentals.--To pay the lessor in advance on the first day of the month in which the lease issues a rental of 50 cents for each acre or fraction thereof for the first lease year, and a rental of 25 cents for each subsequent lease year beginning prior to discovery of a valuable deposit of oil or gas within the limits of the geological structure on which all or part of the leased lands are situated: Provided, That if this lease is granted under section 17 of the act, as amended, for lands not within any known geologic structure of a productive oil or gas field, no rental is required for the second and third lease years unless a valuable deposit of oil or gas is sooner discovered: Provided further, That if this lease is granted in exchange for an oil and gas prospecting permit or pursuant to an application for a prospecting permit filed after May 23, 1935, no rental shall be payable for the first two lease years unless valuable deposits of oil or gas are sooner discovered within the boundaries of the lease, but a rental of 25 cents shall be paid for the third and each succeeding lease year beginning prior to discovery of a valuable deposit of oil or gas within the limits of the geologic structure on which all or part of the leased lands are situated: Provided further, That for each lease year beginning on or after discovery a rental of \$1 per acre or fraction thereof shall be paid, the rental so paid for any one lease year to be credited on the royalty for that year: And provided further, That when the Secretary of the Interior shall direct or shall assent to suspension of operations or of production of oil or gas under this lease, after a valuable deposit of oil or gas shall have been discovered within the lands leased, any payment of acreage rental prescribed herein likewise shall be suspended during such period of suspension of all operations and production; and this lease shall not be deemed to expire by reason of suspension of prospecting, drilling, or production, pursuant to any order or consent of the said Secretary.

(e) Royalties.--To pay the lessor royalties, as follows, on the amount or value of all production from the leased lands (except that portion thereof used for production purposes on said lands or unavoidably lost):

(1) When the price of oil used in computing royalty value is \$1 or more per barrel, the per centum of royalty shall be as follows:

When the average production for the calendar month in barrels per well per day is

not over	50,	the royalty shall be 12.5 percent;
over 50 but not over	60,	" " " " 13 "
" 60	70,	" " " " 14 "
" 70	80,	" " " " 15 "
" 80	90,	" " " " 16 "
" 90	110,	" " " " 17 "
" 110	130,	" " " " 18 "
" 130	150,	" " " " 19 "
" 150	200,	" " " " 20 "
" 200	250,	" " " " 21 "
" 250	300,	" " " " 22 "
" 300	350,	" " " " 23 "
" 350	400,	" " " " 24 "
" 400		" " " " 25 "

(2) When the price of oil used in computing royalty value is less than \$1 per barrel, the per centum of royalty shall be the foregoing multiplied by the ratio of said price to a price of \$1 per barrel: Provided, however, That the per centum of royalty shall never be less than 12.5.

(3) If the United States shall take its royalty in oil, the price received by the lessee, as well as that received by the lessor shall be considered in determining the price to govern the per centum of royalty, unless both prices are \$1 or more per barrel.