

right to drill for and produce oil, gas and other hydrocarbon substances from all zones, sands and measures other than "Shallow Zones". Western hereby expressly reserves all rights, royalties and payments inherent in the ownership of, or arising from any agreements pertaining to all zones, sands and measures other than "Shallow Zones".

5. SUBJECT TO BURDENS

This agreement and all rights granted to Pfaff-Quealy hereunder are expressly made subject to any and all royalty interests, oil payments, assignments, operating agreements, rental agreements, restrictions, conditions, obligations or financial burdens made, executed, suffered or incurred prior to the effective date of this agreement, but only as to those specifically set forth herein. Pfaff-Quealy does hereby assume and agree to perform all of the terms, covenants and conditions as contained in the oil and gas leases, operating agreements and other instruments of title as set forth herein, and agrees to save and hold Western harmless of and from any liability, claim or demand which may accrue thereunder with respect to said "Shallow Zones".

6. COVENANTS

Pfaff-Quealy, in its operations of said "Shallow Zones," shall comply with all orders of the United States Geological Survey of the Department of the Interior, and/or other governmental agency having or claiming to have jurisdiction over operations of the above described lands, and shall save and hold Western harmless of and from any and all liability, claim or demand with respect to or growing out of said operations. In this regard Pfaff-Quealy shall pay all royalties reserved by the United States upon all products produced by Pfaff-Quealy hereunder, which royalty payments shall be made directly to the United States, and shall pay all royalties reserved to other persons and parties, heretofore reserved, such royalties to be paid by Pfaff-Quealy directly to the parties thereunto entitled.

7. TAXES, LIENS, ETC.

Pfaff-Quealy shall pay all taxes, charges and assessments levied or assessed against said lands in connection with Pfaff-Quealy's operations hereunder. In the event such taxes, charges or assessments are not assessed separately against the "Shallow Zones" and the other rights held by Western or its Assigns, an equitable division of said taxes, charges and assessments shall be made between Western, its Assigns, and Pfaff-Quealy; provided, that until and unless production is developed from the "Deep Zones," all taxes, charges and assessments shall be paid by Pfaff-Quealy. Pfaff-Quealy shall pay and satisfy all claims for material, supplies and labor in connection with its operations hereunder, and shall keep said lands and the interests of Western and its Assigns therein free of liens or incumbrances of any and all kind on account of any act of Pfaff-Quealy.

8. RENTALS

Pfaff-Quealy shall pay one-half of all rentals reserved under the terms of the said leases accruing after the date hereof. Western or its assigns shall pay the remaining one-half of said rentals; provided, however, that Western may, at its election, pay all of said rentals as the same become due. Pfaff-Quealy will reimburse Western for one-half of such rentals within thirty days from the receipt of statement of rentals so paid by Western.