

If, as to any tract of land described in Exhibit "A" hereof, the leasehold rights acquired by Second Party pursuant to this agreement constitute less than a full-interest oil and gas leasehold estate therein (excluding and disregarding any applicable royalty, overriding royalty, production payment or other burden to which such leasehold estate is subject) then the overriding royalty hereinabove reserved to CARTER shall be proportionately reduced in accordance with the oil and gas interest actually covered by the oil and gas leasehold estate in such tract of land acquired by Second Party hereunder.

CARTER'S interest in the oil produced from said premises shall be delivered to CARTER free of expense, or to CARTER'S credit in the pipe line which may be connected to, from or upon said premises: Provided, however, CARTER, if it elects, may take its proportionate part of said oil so produced and saved in kind, and its option to do so shall extend for the term of this agreement, and may be exercised as often as CARTER may desire to exercise it, by giving thirty (30) days' notice in writing to Second Party. If at any time CARTER is not exercising its option, its part of the oil so produced and saved shall be sold by Second Party at not less than CARTER'S posted price for oil of like kind and quality, or, if CARTER has no posted price, at not less than the prevailing market price in the locality for oil of like kind and quality. In the event Second Party finds it necessary to sell oil from the premises at less than said price, Second Party shall nevertheless account to CARTER for CARTER'S portion of the production therefrom at CARTER'S posted price, or in the absence thereof, at the prevailing market price in the locality.

CARTER shall also have the option of purchasing Second Party's interest in current production of oil produced and saved from the premises at CARTER'S posted price, or at the prevailing market price in the locality if CARTER has no posted price, or at the prevailing market price in the locality if said posted price is lower than the prevailing market price; and its option of purchasing Second Party's interest in current production shall extend for the term of this agreement and may be exercised as often as CARTER may desire to exercise it by giving thirty (30) days' notice in writing to Second Party.

CARTER shall likewise receive an overriding royalty of 1/8th of 8/8ths of all gas and casinghead gas produced from said premises. Costs and expenses incurred in producing and saving such reserved interest in gas and casinghead gas shall be borne by Second Party. CARTER'S rights as regards taking its portion of such production in kind and of purchasing Second Party's interest therein shall be the same as provided in oil production above.

The word "oil" as used in this section and in Section V hereof includes distillate (hydrocarbon condensate).

In event any lease or leases subject hereto cover minerals other than oil, gas, casinghead gas and distillate, CARTER shall and does hereby reserve unto itself an overriding royalty interest in all such other minerals of 1/8th of 8/8ths, at the well or mine, either in kind or value at CARTER'S election. Costs and expenses incurred in producing and saving such reserved interest shall be borne by Second Party.

VII.

During the period after Second Party's execution of this agreement and prior to the delivery to Second Party of the assignment herein provided for, CARTER shall pay any accruing delay rental required to continue in force any lease affected hereby. Second Party shall, within thirty (30) days after billing by CARTER, reimburse CARTER 100 % of any rental so paid by CARTER insofar as it applies to any land described in Exhibit "A" hereof. In event of Second Party's failure to make such reimbursement, then, at its election, CARTER may: (a) retain title to the lease affected by such rental payment, if not previously assigned to Second Party by CARTER, free from any obligation to assign same to Second Party; or (b) demand and be entitled to receive from Second Party a reassignment of such lease if CARTER has already assigned same to Second Party; or (c) institute action to recover from Second Party such unreimbursed rental.

If, under the assignment herein provided for, CARTER is to reserve any leasehold operating rights, then the following provisions of this paragraph shall be applicable. Except as hereinafter set out, after the delivery of the assignment to Second Party herein provided for, CARTER shall pay any delay rental necessary to continue in force any lease affected hereby insofar as it covers any of the lands described in Exhibit "A" hereof and Second Party shall, within thirty (30) days after receipt of billing by CARTER, reimburse CARTER 50% of such delay rental insofar as it applies to any land described in Exhibit "A" hereof. In event either party hereto desires not to pay any delay rental accruing under any lease affected hereby insofar as it covers the lands described in Exhibit "A" hereof, he or it will so notify the other party hereto at least thirty (30) days in advance of the rental-paying date, and such party shall thereafter be relieved of any further obligation with respect to such delay rental which he or it does not desire to pay. If the party receiving such notice desires to pay such delay rental, he or it may do so and the party giving notice of his or its desire not to pay such delay rental shall promptly assign to the party paying such rental all of his or its interest in the lease affected insofar as it covers any acreage described in said Exhibit "A".

Notwithstanding any of the foregoing provisions, in event of the failure of CARTER, through inadvertence or mistake, to properly pay any delay rental hereinabove referred to, CARTER shall not be liable therefor.

VIII.

No oil or gas well on the premises subject hereto shall be plugged or abandoned by Second Party unless the provisions of this section are first complied with. If Second Party desires to abandon any such well, Second Party shall give written notice thereof to CARTER. After the giving of such notice, Second Party shall make a five-day production test of such well and furnish CARTER with a written statement of the results thereof. CARTER shall have the right to witness and gauge such test. CARTER shall have the option, to be exercised by notice to Second Party within thirty (30) days after receiving the results of such test, to take over such well and to receive an assignment thereof upon payment to Second Party of the reasonable salvage value of any recoverable equipment of Second Party therein and thereon less the reasonable cost of plugging such well. "Salvage value" shall mean, for the purposes hereof, the then market value of the recoverable equipment on the ground at the well less the cost of recovering such equipment. Such assignment shall include and cover at least so much of the leasehold estate as may be necessary to constitute the customary or established drilling unit in the field for production from the same formation as the formation from which the well which Second Party desires to abandon is producing or has last produced and as is necessary to enable the production of the well from such formation. If there is no such established drilling unit, then such assignment shall include and