

applied first to the Secondary Amount and then to the amount equal to said ad valorem taxes, and the balance shall be applied against, and to that extent shall reduce the Primary Amount or the unliquidated balance thereof then remaining.

It is expressly provided that the production payment herein conveyed shall be free and clear of all operating and production costs, and free and clear of all taxes, except severance, gathering and other taxes on production (and except income taxes, if any, payable by the Grantee). It is further expressly provided, however, that the amount which the Grantee is entitled to receive hereunder as aforesaid shall not be reduced in any way by such severance, gathering and other taxes on production.

The Grantor for itself and its successors and assigns does hereby represent and warrant that it has good right, full power and lawful authority, to grant, bargain, sell, transfer, assign and convey the production payment hereby conveyed in the manner and form hereby done or intended; that the above production payment is free and clear of all liens, encumbrances and adverse claims; that the leases and leasehold interests as described in Exhibit "A" are valid and existing; that all rents and royalties due and payable under said leases have been duly paid and all conditions necessary to keep said leases in full force and effect have been duly performed; that the Grantor is the lawful owner and has good title to such interests hereby conveyed; that the Grantor will warrant and forever defend the title to such interests hereby conveyed unto the Grantee against the claims of all persons whomsoever claiming the same or any part thereof; that the Grantor will on request of the Grantee promptly correct any defect, error or omission which may be discovered in the contents of this instrument or in the execution or acknowledgment thereof, and will execute and deliver such further instruments and do such further acts as may be necessary or as may be reasonably requested by the Grantee, to carry out more effectively the purposes of this instrument and to make subject hereto the interests hereby covered or intended to be covered.

The Grantor further covenants that until the Grantee shall have received the proceeds of sale of oil and/or gas to which the Grantee is entitled