

This conveyance shall be effective at 8:00 A. M. on July 1, 1958 and shall terminate and shall be deemed satisfied whenever the Grantee shall have received from the proceeds of the sale of oil and/or gas if, as and when produced from the properties and interests in Exhibit "A" annexed hereto, free and clear of all exploration, development, operating, gathering, producing, treating, processing, marketing, transporting and other costs and expenses of every kind whatsoever, and over and above all gross production, severance, gathering, pipeline regulating and other taxes and assessments (other than taxes on or measured by the income or profits of the Grantee) imposed with respect to or measured by or charged against the oil or gas accruing to the production payment herein conveyed, the sum of Seven Hundred Thousand (\$700,000.00) Dollars (hereinafter called "Primary Amount") plus an amount (hereinafter called "Secondary Amount") equal to six (6%) percent per annum on the outstanding balances on the Primary Amount from time to time remaining unpaid, such Secondary Amount to be computed (on the basis of a 365 day year) from date hereof to December 31, 1957 and monthly thereafter, and plus an amount equal to all ad valorem taxes (or taxes imposed in lieu thereof) if any, assessed against the production payment herein conveyed which are paid by the Grantee, it being understood that such proceeds received by the Grantee each month shall be applied first to the Secondary Amount and then to the amount equal to said ad valorem taxes (or taxes imposed in lieu thereof) and the balance shall be applied against, and to that extent shall reduce, the Primary Amount or the unliquidated balance thereof then remaining. Where statutory and governmental regulatory provisions require it, all gross production, severance, gathering, pipeline regulating and other taxes and assessments imposed with respect to or measured by or charged against the oil or gas accruing to the production payment herein conveyed shall be deducted from such proceeds by the purchasers of such oil or gas in compliance with such provisions, and only the net proceeds remaining shall be applied in accordance with the foregoing provisions of this paragraph.

It is expressly provided that this conveyance includes (i) all proceeds which may become payable after the effective date of this conveyance