

said oil and gas lease and that said oil and gas lease and the oil, gas, casinghead gas and other minerals which may be produced therefrom are free and clear of all claims, liens and encumbrances, except the overriding royalties or other payments out of production hereinbefore specifically mentioned, if any, which covenants First Party agrees to defend against all persons whomsoever, subject, however, to the terms and conditions of said lease.

(b) Second Party shall pay to First Party as an overriding royalty 2-1/2% of the proceeds of the oil, gas and casinghead gas, if, as and when produced, saved and sold from said premises under the terms of said oil and gas lease or, in the event of unitization or communitization as hereinabove provided, such overriding royalty shall be calculated upon proceeds from the portion of the oil, gas and casinghead gas produced, saved and marketed from the unit which under the unit plan or communitization agreement shall be allocated to said premises upon which Second Party exercises its option. Provided, that if the overriding royalty herein provided to be paid to First Party plus the total of all prior existing overriding royalties or burdens on production, if any, plus the royalty payable to the United States in the aggregate exceeds 17 1/2%, the overriding royalty payable to First Party hereunder shall be reduced to the extent said aggregate shall exceed 17 1/2% when the average production per well per day averaged on a monthly basis is (1) as to oil, 15 barrels or less and (2) as to gas, 500,000 cubic feet or less. This provision shall apply separately to each productive zone or portion of the lease segregated for computing Government royalty. Without impairment of the leasee's rights under the warranty above provided, it is agreed that in the event First Party's interest shall be less than the full and undivided ownership of said oil and gas lease, subject only to the payment of the overriding royalties and other payments out of production provided for above, if any, the overriding royalty payable hereunder shall be proportionately reduced.

(c) No change in the ownership of all or any part of the interest or rights of First Party hereunder shall be binding upon Second Party unless and until Second Party shall be furnished with the original or an acceptable certified copy of the instrument evidencing such change of ownership, or other legal evidence of such change of ownership as may be required by Second Party.

(d) No overriding royalty payable hereunder shall be payable or accrue upon any oil, gas or casinghead gas used for operating, development or production purposes on the lands covered by said lease or leases, or said cooperative or unit plan, or unavoidably lost, and no overriding royalty shall be payable on gas used for recycling and repressuring operations on the lands above described or the unitized area of which it may become a part.

(e) Before computing the amount of any overriding royalty payable hereunder, Second Party shall have the right to deduct from the value of the oil, gas and casinghead gas or the proceeds thereof on which such overriding royalty is computed, the full amount of any taxes required to be paid by Second Party or assessed on such oil, gas and casinghead gas or the value thereof, or for or on account of the production, sale and/or transportation thereof.

(f) Second Party is hereby granted the exclusive right, as between the parties hereto, to develop and operate the lands covered by the exercise of said option and each and every part thereof to such extent and in such manner as Second Party in the exercise of its good faith and business judgment shall determine to be proper, without incurring any liability whatsoever to First Party.

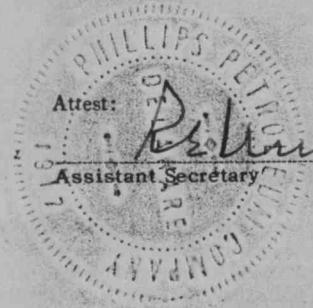
(g) Subject to the surrender provision as hereinabove contained, this agreement as to the lands included in any exercise of the option as herein provided shall continue in full force and effect for and during the full term of said oil and gas lease or any extension or renewal thereof.

11. The power of attorney herein granted being coupled with an interest shall be and is hereby made irrevocable during the life of this agreement. This agreement, including said power of attorney, shall be binding upon and inure to the benefit of the respective heirs, representatives, administrators, executors, successors and assigns of the parties hereto.

The rights and options of Second Party under this agreement are assignable in whole, in part, or in undivided interests, and inure to the benefit of the successors and assigns of Second Party, and shall be binding upon First Party, and on First Party's heirs, representatives, administrators, executors, successors and assigns.

12. Second Party shall at all times have the exclusive right to apply to the Secretary of the Interior or his duly authorized representative, without the necessity of First Party joining therein, for the suspension of any drilling and producing provisions of any oil and gas lease or any cooperative or unit plan covering all or any part of the above described lands, and for any other relief which, in the opinion of Second Party, may be necessary or proper in the exploration or operation of said lands for oil and gas purposes.

IN WITNESS WHEREOF, this agreement has been executed the day and year first above written.



John S. Hilson
First Party

PHILLIPS PETROLEUM COMPANY

By [Signature]
Vice President
Second Party

ACKNOWLEDGMENT (Individual)

Applicable where lands are in Colorado, Wyoming, Montana, North Dakota, South Dakota, Utah and New Mexico. (If lands are in New Mexico and acknowledged by man and wife, the words "his wife" should follow name of wife in acknowledgment.)

STATE OF WYOMING
COUNTY OF NATRONA } ss.

On this 22nd day of November, A.D. 19 57, before me Evelyn Kate Wisdom, a notary public, personally appeared John S. Hilson, to me known to be the person described in and who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free act and deed.

Given under my hand and seal this 22nd day of November, 19 57.

My commission expires: August 29, 1959

Evelyn Kate Wisdom
Notary Public
Residing at Casper, Wyoming

STATE OF _____
COUNTY OF _____ } ss.

On this _____ day of _____, A.D. 19 _____, before me _____, a notary public, personally appeared _____, to me known to be the person described in and who executed the within and foregoing instrument, and acknowledged to me that _____ executed the same as _____ free act and deed.

Given under my hand and seal this _____ day of _____, 19 _____.

My commission expires: _____

Notary Public
Residing at _____

ACKNOWLEDGMENT (Corporation)

Applicable where lands are in Colorado, Wyoming, Montana, North Dakota, South Dakota, New Mexico and Utah

STATE OF OKLAHOMA
COUNTY OF WASHINGTON } ss.

On this 9th day of December, A.D. 19 57, before me Martha Rinehart, a notary public, personally appeared B. F. Stradley, to me personally known to be the Vice President of the corporation described in and that executed the within and foregoing instrument, who, being by me duly sworn did say: that he is the Vice President of Phillips Petroleum Company, a corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said B. F. Stradley acknowledged said instrument to be the free act and deed of said corporation, and that said corporation executed the same.

Given under my hand and seal this 9th day of December, 19 57.

My commission expires: August 1, 1959

Martha Rinehart
Notary Public
Residing at Bartlesville, Oklahoma