

232

3. Overriding Royalty: Owner hereby retains, reserves and excepts overriding royalty equal to 1/8th of 8/8ths of the market value at the wells as produced of all of the oil, gas and other hydrocarbon substances which may be produced, saved and marketed from the shallow zone of the operator under the said lease or any extensions or renewals thereof.

Said overriding royalty shall be effective as of the date hereof, and shall be free and clear of all development and operating costs and shall be computed and paid at the time and in the same manner as royalties on production are payable to the lessor under the said lease. However, Owner shall be responsible for its proportionate part of all taxes levied upon or against or measured by the production of oil or gas from said leasehold premises. The overriding royalty herein reserved ~~shall be in addition to~~ (shall include and shall not be in addition to) overriding royalties or other payments from production previously reserved or otherwise created.

The undersigned agree that the obligation to pay any overriding royalties or payments out of production of oil created herein, which, when added to overriding royalties or payments out of production previously created and to the royalty payable to The United States, aggregate in excess of 17-1/2 percent, shall be suspended when the average production of oil per well per day averaged on the monthly basis is 15 barrels or less.

4. Rentals: Owner will make a bona fide effort to pay all rentals which become due the Lessor under the terms of said lease as to said lands, but shall not be liable for inadvertent failure to pay such rentals and shall only be liable for bad faith or gross negligence in failing to make such payment. Operator shall reimburse Owner for one-half of such payment attributable to the above lands within fifteen (15) days after demand therefor. If Operator shall fail or refuse to so reimburse Owner within thirty (30) days after a demand therefor by registered mail, then at the option of Owner, Operator's rights hereunder shall cease and terminate and he shall reassign and surrender said premises to Owner. Operator and Owner shall pay any royalty due the Lessor under the terms of said oil and gas lease from the zone of each respective party, and each party shall do and perform any and everything relating to its zone that may be necessary to keep said lease in good standing with the Lessor as to said lands. Owner shall promptly furnish Operator with copies of all notices or demands received from the Lessor as to the above described lands with respect to any default or nonperformance as to said lands.

5. Surrender: If, at any time, either party desires to cease paying rentals or to surrender or release his title to his respective zone hereunder, or if either party desires to abandon the last producing well located on said lands, which is the sole well validating and extending the terms of said oil and gas lease, then such party desiring to so surrender or release said title or abandon said well shall be called Assignor and the other party shall be called Assignee for the purpose of this paragraph. Assignor shall give Assignee notice in writing by registered mail of intention to release or surrender said title or abandon said well at least sixty(60) days prior to the intended release date or abandonment date, but said date shall be not less than sixty(60) days prior to the next annual rental payment date, and thereupon Assignee shall have the option to receive an assignment from Assignor of the land designated in said notice. Such notice shall designate at least the entire title of Assignor in such acreage of said lands as may be prescribed under the spacing or proration rules of the State Oil Conservation Commission, or equivalent body, for a well in the field, but in no event less than a 40-acre legal subdivision. If Assignee elects to receive such assignment, Assignee shall so notify Assignor by registered mail within thirty (30) days after the mailing of said Notice of Intention to Release by Assignor and as quickly as reasonably possible Assignor shall deliver Assignee a good and sufficient assignment of said lease or title, and Assignor shall thereupon be released from all liability hereunder and under said oil and gas lease thereafter accruing as to said lands. If Assignee does not so timely notify Assignor of the election to accept such assignment, then Assignor shall be free to release or surrender said lease or title as to the designated land and thereupon Assignor shall be released from all liability hereunder and under said oil and gas lease thereafter accruing as to said lands.