

appropriate to the operation of each such Proven Subject Interest, to be kept in full force and effect, free of cancellation, forfeiture or any accrued right of termination, by the payment of whatever sums may become payable and by the performance of whatever obligations may become performable;

B. the Proven Subject Interests to be maintained, developed, continuously operated and improved in strict conformity with all applicable contracts and other instruments and in accordance with generally approved practices of prudent operators in the industry and with applicable Federal, State and local laws, rules and regulations (except those which are contested in good faith) to the end that each well thereon capable of producing Hydrocarbons in paying quantities shall produce and continue to produce the full regulatory allowable of Hydrocarbons to the extent of such well's capacity or the available market for such allowable Hydrocarbons;

C. without limiting the matters contained in the foregoing Subsection B, the Grantee will cause to be carried out the development programs contemplated in the Gruy Report, or, in the event of changed circumstances, such equally extensive development programs with respect to the Exhibit A Subject Interests as shall be mutually acceptable to the Grantee and the Grantor or, if the Grantee and Grantor cannot agree upon such programs, as shall be determined by H. J. Gruy & Associates, Inc. or by such other independent engineer as may be designated by the Grantee and approved by the Grantor;

D. all to be done that, according to generally approved practices of prudent operators in the industry, may be appropriate to maintain and to protect from diminution the productive capacity of the Proven Subject Interests and each producing well thereon, including cleaning out and reconditioning each such well from time to time, plugging and completing at a different level each such well, drilling a substitute well (including supplying of all necessary related facilities therefor) to the same formation from time to time and drilling of additional wells (including supplying of all necessary related facilities therefor) to conform to changed spacing regulations and to protect the Proven Subject Interests against drainage whenever and as often as necessary;

E. all liabilities of any kind or nature incurred with respect to or related to the Proven Subject Interests, including, without limitation, all liabilities for Production Expenses, to be paid punc-

tually when due, or, as to any thereof which are being contested in good faith, promptly after the final determination of such contest;

F. all machinery, equipment and facilities of any kind now or hereafter located on the Proven Subject Interests and necessary or useful in the operation thereof for the production of Hydrocarbons therefrom, to be provided and to be kept in good and effective operating condition, and all repairs, renewals, replacements, additions and improvements thereof or thereto needful to such end, to be promptly made;

G. written notice to be given to the Grantor of every adverse claim or demand made by any person (which term as herein used shall include any government or governmental agency, a corporation, a partnership or other legal entity of any kind) affecting the Proven Subject Interests or the Subject Hydrocarbons attributable thereto in any manner whatsoever, or of any proceedings instituted with respect thereto, and all necessary and proper steps to be diligently taken to protect and defend the Proven Subject Interests and such Hydrocarbons against any such adverse claim or demand, including, but not limited to, the employment of counsel for the prosecution or defense of litigation and the contest of any such claim or demand;

H. all *ad valorem* taxes (or taxes imposed in lieu thereof) and all Production Taxes imposed or assessed upon or measured by or charged against the Proven Subject Interests or the Texas Pacific Production Payment or the Subject Hydrocarbons attributable to such Subject Interests or against the Grantor by reason of its ownership of the Texas Pacific Production Payment or against any mortgagee of the Texas Pacific Production Payment by reason of his or its mortgage interest, to be rendered and paid punctually before the same become delinquent (or, as to any thereof which are being contested in good faith, promptly after the final determination of such contest), together with any interest and penalty payable in connection therewith; and

I. the Grantee's interest in the Proven Subject Interests to be kept free and clear of defects and irregularities of title resulting from acts or omissions of the Grantee and free and clear of liens, charges and encumbrances of every character, other than (1) taxes constituting a lien but not yet due and payable; (2) defects or irregularities of title or liens, charges or encumbrances which are not such as to interfere materially with the operation, value or use of any such Subject Interest, or materially affect title thereto; (3) Production Sales Contracts; (4) those set forth or referred to in