

abandonment of any well, any plugging of any well and reopening the same at a different level, any method of repressuring in the field, or any other action with respect to the Subject Interests, the decision as to which may increase or reduce the volume of the Hydrocarbons ultimately recoverable from the Subject Interests, or the rate of production therefrom, or which may shorten or prolong the period of time required for the discharge of the Texas Gulf Production Payment, and, further, upon request of the Grantor (but not oftener than once each year), a report of an independent engineer designated by the Grantor covering such of the matters mentioned in this Subsection as shall be so requested.

B. Within 60 days after the end of each calendar month, a report showing, for such calendar month, the gross proceeds of the sale of the Subject Hydrocarbons (including Hydrocarbons purchased by the Grantee for its own use), the quantities so sold, the taxes deducted from or paid out of such proceeds, the net proceeds of Production Payment Hydrocarbons receivable by the Grantor out of said gross proceeds, the number of wells operated, drilled and abandoned and such other information as the Grantor may reasonably request.

C. Within 30 days after the completion of any well in any sand or formation which the Grantee proposes to classify as an Exhibit A New Sand, the Grantee shall furnish to the Grantor a report showing the location of such well, together with such other information as the Grantor shall reasonably request and a statement by the Grantee that such well is producing or capable of producing Hydrocarbons from an Exhibit A New Sand. In the event that the Grantor shall, within 90 days after receipt by it of the report or reports and statement referred to in the preceding sentence, give written notice to the Grantee of its disagreement with the Grantee's classification of such sand or formation as an Exhibit A New Sand, an independent engineer acceptable to the Grantee shall be selected by the Grantor to determine whether such sand or formation shall be classified as an Exhibit A New Sand or not, and such determination shall be binding upon the parties. If the aforesaid determination by the independent engineer also disagrees with the Grantee's classification, then such sand or formation shall be an Exhibit A New Sand only for the period which shall have elapsed from the date of first production from such sand to the first day of the calendar month in which such written notice of disagreement is given by the Grantor to the Grantee and, effective 7:00 A. M., local time, on the first day of such calendar month the Subject Hydrocarbons

attributable to such sand shall no longer be considered as being attributable to an Exhibit A New Sand.

D. Upon the request of the Grantor, a report showing, as to the preceding calendar year, the number of units into which any of the Subject Interests (or any portion thereof) have been pooled or combined under the authorization contained in Section 6.3 or otherwise, the location and description thereof, the records, and the volumes and pages thereof, in which the pooling agreements, unit designations or other instruments required by Section 6.3 have been filed and recorded, the number of field-wide unitizations to which any of the Subject Interests (or any portion thereof) have been made subject by the specific authorizations of the Grantor and the Grantee and their locations and descriptions and other data pertinent thereto, and the number, location and description of any pressure maintenance or secondary recovery operations affecting any of the Subject Interests (or any portion thereof), and summarizing any other transactions which in the opinion of Grantee constitute items of major importance affecting the Subject Interests.

E. Annually, commencing on April 1, 1965, a report showing as to the preceding calendar year an accurate description by metes and bounds of each Exhibit B Subject Interest which during such calendar year became capable of producing Hydrocarbons, together with opinions of counsel acceptable to the Grantor as to the Grantee's interest in such Subject Interest, including the extent to which such interest is free and clear of all liens, charges and encumbrances other than those specified or referred to in *Subsection H of Section 3.1*, and the extent to which curative action is necessary to make the Grantee's interest in such Subject Interest free and clear of all liens, charges and encumbrances other than those specified or referred to in *Subsection H of Section 3.1*.

SECTION 3.5. *Titles to Exhibit B Subject Interests.* The Grantee shall use its best efforts to obtain good and marketable title to each Exhibit B Subject Interest prior to commencement of production therefrom, or promptly thereafter, free and clear of defects and irregularities of title (except such as do not interfere materially with the operation, value or use of any such Subject Interest or materially affect title thereto) and free and clear of all liens, charges and encumbrances other than those specified or referred to in *Subsection H of Section 3.1*.