

Section 5. Certain Conditions Applicable to the Production Payment. The Production Payment shall be subject to the following provisions:

A. The Owner of the Production Payment shall look solely to the Production Payment Hydrocarbons for satisfaction and discharge of the Production Payment, and Grantee shall not be personally liable for the payment and discharge thereof. However, the foregoing provisions shall not relieve Grantee of the obligation to respond in damages for any breach of any of the covenants, agreements and obligations of Grantee hereunder.

B. The Production Payment shall not be dischargeable out of any products resulting from any manufacturing, processing or refining operation, except to the extent of that portion of such products whose value represents the fair market value at the wellhead of the Production Payment Hydrocarbons used in the making of such products.

C. There shall not be included in the Production Payment Hydrocarbons any Hydrocarbons unavoidably lost in the production thereof or used in conformity with good field practices in drilling or producing operations (including gas injection, secondary recovery, pressure maintenance, repressuring or cycling operations) conducted for the purpose of producing Subject Hydrocarbons.

D. The Production Payment shall not be dischargeable out of any bonus which Grantee shall receive for any oil and gas lease, sublease or assignment of any Subject Interest, nor out of any payments to Grantee in connection with the drilling or deferring of drilling of a well on any of the Subject Interests nor in connection with any adjustment for wells and leasehold equipment upon unitization of any Subject Interest.

Section 6. Marketing and Taking in Kind. The Production Payment Hydrocarbons shall be marketed by Grantee or its lessees or taken in kind by the Owner of the Production Payment in accordance with the following provisions:

A. With the exception of Production Payment Hydrocarbons taken in kind by the Owner of the Production Payment as hereinafter provided, Grantee will, or, insofar as it can legally do so, will require its lessees to, market and sell the Production Payment Hydrocarbons on the same basis as Grantee, or its lessees, markets its share of the Subject Hydrocarbons,