

together with an amount equal to interest on the amounts described in subparagraphs (i), (ii) and (iii) above at the rate of six and one-half per cent (6-1/2%) per annum from the date of payment (computed on the basis of a 365-day year); IT BEING THE INTENTION HEREOF that the Owner of the Production Payment shall be entitled to receive and realize out of the Production Payment Hydrocarbons produced and saved, the net aggregate sum of the amounts specified above under Subsections (a) and (b) of this Section, free and clear of all costs of Production Expenses and ad valorem taxes (both of which are to be borne and paid by Grantee) and over and above all taxes, costs and expenses of the character and amount described in Subsection (c) of this Section.

Section 3. Application of Proceeds of Production Payment Hydrocarbons. The net proceeds of Production Payment Hydrocarbons actually received by the Owner of the Production Payment during any calendar month shall be deemed to have been received, and shall be applied, on the first day of the next succeeding calendar month, as follows:

First, to the amount referred to in Subdivision B of Section 2; and

Second, to the amounts referred to in Subdivision C of Section 2, to the extent such amounts are then ascertained; and

Third, to reduction of the unliquidated balance of the Primary Sum; provided, however, that if such proceeds as so applied on the first day of any calendar month shall be insufficient to cover the full amounts specified in the foregoing Clauses First and Second, the then unliquidated balance of the Primary Sum shall be increased forthwith by the amount of such deficiency; and provided further that if the first day of any such calendar month shall fall on Saturday, Sunday or a Legal Holiday, under the law of the jurisdiction where such proceeds are received, the application herein provided to be made on the first day of such calendar month shall be made on the next succeeding day which is not a Saturday, Sunday or Legal Holiday, but shall be made as of the first day of such month. No application of proceeds on the Production Payment shall be deemed to have been made except from net proceeds of Production Payment Hydrocarbons actually received in cash by the Owner of the Production Payment.