

imposed in lieu thereof) imposed upon or assessed with respect to or charged against the Production Payment or any mortgage thereof, or upon the Production Payment Hydrocarbons. Said ad valorem taxes to be paid by Grantee shall not be deducted from the proceeds of Production Payment Hydrocarbons and payment of none of such taxes shall decrease the amount of the Production Payment.

Section 9. Operation of Subject Interests. So long as the Production Payment shall remain in force, and whether or not Grantee is the operator of the Subject Interests, insofar as it can legally do so, Grantee shall, at its own cost and expense:

A. Cause the Subject Interests to be maintained, developed, protected against drainage, and continuously operated for the production of Hydrocarbons in a good and workmanlike manner, as would a prudent operator (and without regard to the existence of the Production Payment), all in accordance with generally accepted practices, applicable operating agreements, and all applicable federal, state and local laws, rules and regulations, excepting those being contested in good faith;

B. Pay, or cause to be paid, promptly as and when due and payable, all Production Expenses incurred in or arising from the operation or development of the Subject Interests, or the producing, treating, gathering, storing, marketing or transporting of the Subject Hydrocarbons;

C. Cause all machinery, equipment and facilities of any kind now or hereafter located on the 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;

D. Give or cause to be given to the Owner of the Production Payment written notice of every adverse claim or demand made by any person affecting the Subject Interests or the Subject Hydrocarbons in any manner whatsoever, and of any suit or other legal proceedings instituted with respect thereto, and at Grantee's expense cause all necessary and proper steps to be taken with reasonable diligence to protect and defend the Subject Interests and the Subject Hydrocarbons against