

* * *

3. Production Royalties.

(a) Calculation of Royalties. Prior to termination of this Agreement or to payment in full of the Purchase Price, and in the event that Denison conducts mining operations on the Mining Properties, Denison agrees to pay to Sellers as a production royalty, five percent (5%) of the Net Smelter Returns from sale of any ore, minerals or mineral substances from the Mining Claims. "Net Smelter Returns" are defined as the gross proceeds received by Denison from the sale of such ore, minerals and mineral substances, less (i) all costs to Denison of handling, weighing, sampling, determining moisture content, packaging, refining, processing or beneficiating such material and of transporting it to the point of sale, (ii) all charges imposed by the purchaser, together with penalties imposed by the purchaser, if any, and (iii) ad valorem taxes, severance taxes, and such other taxes as are imposed upon Denison's production. Any such royalty payments shall be applied against and shall reduce the Purchase Price of the Mining Properties beginning with the final installment payment due and, when it has been eliminated by such credits, proceeding in sequence from the last payment to the next to last payment, and so on. Denison's obligation to pay to Sellers such production royalty shall terminate upon the termination of this Agreement or upon payment in full of the Purchase Price.

(b) Time of Payment. * * * Any complaint or objection which Sellers may wish to raise with respect to production royalties payable hereunder shall be made by Sellers to Denison in writing within one (1) year after such payment has been made to Sellers or after such credit has been applied against installment payments or shall be deemed to have been waived by Sellers.

(c) Proportionate Reduction. In the event that Sellers own and hereby grant to Denison an interest in any