

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION

DEVON EXHIBIT NO. A

CASE NO. 10658

AGREEMENT

This agreement, made and entered into as of the 10th day of July, 1953, by and between Malco Refineries, Inc., a corporation, and Westcoast Hydrocarbons, Inc., a corporation, hereinafter referred to separately as "Malco" and "Westcoast" and jointly as "Lessee", and Stanolind Oil and Gas Company, a corporation, hereinafter referred to as "Operator":

WITNESSETH:

THAT WHEREAS, Malco is the owner of the oil and gas leases described in Exhibit "A" attached hereto and made a part hereof, insofar as said leases cover the land described in said Exhibit "A", said land being situated in Eddy County, New Mexico; and

WHEREAS, Malco represents that said leases, insofar as they cover the land described in said Exhibit "A", are subject to the overriding royalties and other payments out of production set forth in said Exhibit "A", and except for such overriding royalties and payments out of production, said leases are free and clear of any overriding royalties, production payments or other encumbrances; and

WHEREAS, Westcoast is the owner of the oil and gas leases described in Exhibit "B" attached hereto and made a part hereof, insofar as said leases cover the land described in said Exhibit "B", said land being situated in Eddy County, New Mexico; and

WHEREAS, Westcoast represents that said leases, insofar as they cover the land described in said Exhibit "B", are subject to the overriding royalties and other payments out of production set forth in said Exhibit "B", and except for such overriding royalties and payments out of production, said leases are free and clear of any overriding royalties, production payments or other encumbrances; and

WHEREAS, Lessee and Operator have agreed that Operator shall have the right to explore, survey and investigate the land described in said Exhibits "A" and "B" for mineral indications, and Lessee has agreed to convey to Operator an undivided 1/2 of Lessee's interest in and to portions of the leases described in said Exhibits, and the parties hereto desire to provide for the development and operation of the portions of said leases covered by such conveyance;

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NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is understood and agreed by and between the parties hereto as follows:

1. Lessee hereby grants unto Operator, insofar as Lessee is legally able so to do, for a period of six months from and after the date hereof, the exclusive right, privilege and authority to explore, survey and investigate for mineral indications, possibilities and showings (geological, geophysical, and any other method or methods, including the use of magnetometer, torsion balance and seismograph, and by boring core holes) all of the land described in Exhibits "A" and "B" attached hereto. Operator, in conducting any such survey and investigation, shall comply with laws, rules and regulations of State and Federal authorities having jurisdiction, and shall bear all costs in connection with such survey and investigation and shall hold Lessee harmless from and against any loss, charge, cost, expense, risk or injury which Lessee may incur or suffer arising out of Operator's acts or omissions in conducting such survey and investigation.

2. On or before the expiration of the six months' exploratory period provided for in Article 1 hereof, Operator shall give Lessee notice in writing of its designation of all or a portion of the land described in Exhibits "A" and "B" attached hereto; provided, however, that such designation shall cover not less than 2,000 acres. Upon such designation by Operator, Malco immediately shall execute and deliver to Operator an Operating Agreement conveying to Operator an undivided 1/2 of Malco's interest in and to the leases designated by Operator from the land described in Exhibit "A", and Westcoast immediately shall execute and deliver to Operator an Operating Agreement conveying to Operator an undivided 1/2 of Westcoast's interest in and to the leases designated by Operator from the land described in Exhibit "B", each of said parties using therefor the form of Operating Agreement attached hereto, marked Exhibit "C" and made a part hereof. It is understood and agreed that a separate Operating Agreement covering each of the leases designated by Operator under the provisions of this Article 2 shall be executed and delivered to Operator as above provided. Upon delivery of such Operating Agreements by Malco and Westcoast, Operator shall pay to Malco a sum of money equal to \$75.00 for each acre designated by it from Exhibit "A" and Operator shall pay to Westcoast a sum of money equal to \$75.00 per acre for each acre designated by it from Exhibit "B".

3. Upon the execution and delivery of the operating agreements provided for in Article 2 hereof, the parties hereto shall execute an "Operating Contract Covering Operation and Development of Lease Acreage", using therefor the form attached hereto marked Exhibit "D" and made a part hereof. An exhibit setting forth the leases and lands covered by the Operating Agreements to be executed by Malco and Westcoast under the provisions of Article 2 hereof, shall be prepared and attached to such "Operating Contract Covering Operation and Development of Lease Acreage" as a "Schedule of Leases", in which exhibit the leases and lands covered by the Operating Agreements executed by Malco shall be included in Section I of said Schedule of Leases and the leases and lands covered by the Operating Agreements executed by Westcoast shall be included in Section II of said Schedule of Leases.

4. All notices required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph with all postage or charges fully prepaid and addressed to the parties hereto respectively, as follows:

Malco Refineries, Inc.
P. O. Box 660
Roswell, New Mexico

Westcoast Hydrocarbons, Inc.
P. O. Box 660
Roswell, New Mexico

Stanolind Oil and Gas Company
P. O. Box 1410
Fort Worth, Texas

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States Post Office addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article 4 by notifying the other parties hereto thereof in writing.

The provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto, their successors and assigns, and such provisions shall be covenants therein running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

EXECUTED as of the day and year first hereinabove written.

ATTEST:

Joe W. Lasky
Secretary

MALCO REFINERIES, INC.

BY Donald B. Anderson
VICE President

ATTEST:
Joe W. Ladd
Secretary

WESTCOAST HYDROCARBONS, INC.
BY Donald B. Anderson
VICE President

ATTEST:
Joe Netto
Assistant Secretary

STANOLIND OIL AND GAS COMPANY
BY John R. Evans
Attorney in Fact

APPROVED
[Signature]

Auth. [Signature]
Law EWB
Land BEH
Acc'y MM

Malco Refineries, Inc.
FILE COPY
Return to P. O. Box 660
Roswell, New Mexico

STATE OF New Mexico)
COUNTY OF Chaves)

On this 10th day of August, 1953, before me appeared Donald B. Anderson, to me personally known, who, being by me duly sworn did say that he is the vice President of Malco Refineries, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said Donald B. Anderson acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

H. E. Hamington
Notary Public in and for Chaves
County, New Mexico.

My Commission Expires 6-30-56.

STATE OF New Mexico)
COUNTY OF Chaves)

On this 10th day of August, 1953, before me appeared Donald B. Anderson, to me personally known, who, being by me duly sworn did say that he is the vice President of Westcoast Hydrocarbons, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said Donald B. Anderson acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

H. E. Hamington
Notary Public in and for Chaves
County, New Mexico.

My Commission Expires 6-30-56.

STATE OF TEXAS

COUNTY OF TARRANT

On this nd 22 day of May, 1953, before me appeared John A. Evans, to me personally known, who, being by me duly sworn did say that he is the Attorney in Fact of Stanolind Oil and Gas Company, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors, and said John A. Evans acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

Ada Belle Zartman
Notary Public in and for Tarrant
County, Texas.

Ada Belle Zartman

My Commission Expires 6-1-53.

EXHIBIT "A"

1. Serial No. LC 067858

V-13

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: July 1, 1949
Description: T-18-S, R-27-E, Section 11, NE/4, W/2; Section 15, E/2.
Note: This lease is subject to an overriding royalty of 1/32 of production from NE/4 and SW/4 Section 11, and E/2, Section 15. Said lease is also subject to an overriding royalty of 1/2 of 1% of production from NE/4 and SW/4, Section 11, and E/2 Section 15. Also subject to an overriding royalty of 1% of production from NW/4 Section 11.

2. Serial No. LC 067857

V-14

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: September 1, 1948
Description: T-18-S, R-27-E, Section 22, N/2 NE/4, S/2 N/2.
Note: This lease is subject to an overriding royalty of 1/32 of production. Said lease is also subject to an overriding royalty of 1/2 of 1% of production.

3. Serial No. LC 065616

V-15

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: September 1, 1948
Description: T-18-S, R-27-E, Section 15, NW/4, N/2 SW/4; Section 21, N/2 N/2, SE/4 NE/4, SW/4 NW/4.
Note: This lease is subject to an overriding royalty of 1/32 of production.

4. Serial No. LC 062412

V-21

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: January 1, 1944
Description: T-18-S, R-27-E, Section 1, Lots 1, 2, 3, 4, S/2 N/2, SW/4. SAVE AND EXCEPT all rights from surface to a depth of 2500 feet as to Lot 4 (NW/4 NW/4).
Note: This lease is subject to an overriding royalty of 4-1/2% of production.

5. Serial No. LC 067981 (a)

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: January 1, 1940
Description: T-18-S, R-27-E, Section 7, SW/4 NE/4; NE/4 SE/4;
Section 8, SW/4 SW/4.
Note: This lease is subject to an overriding royalty of
12-1/2% of production.

6. Serial No. LC 067981 (b)

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: January 1, 1940
Description: T-18-S, R-27-E, Section 7, SE/4 SE/4.
Note: This lease is subject to an overriding royalty of 5%
of production.

7. Serial No. B-7244

M-20
Lessor: State of New Mexico
Lessee: Malco Refineries, Inc.
Date: October 10, 1937
Description: T-18-S, R-27-E, Section 2, S/2 NW/4, NW/4 SW/4, SE/4 SW/4.
SAVE AND EXCEPT all rights from surface to a depth of
1700 feet as to S/2 NW/4, NW/4 SW/4.
Note: This lease is subject to an overriding royalty of 4-1/6%
of production from SE/4 SW/4, Section 2. Said lease is
also subject to an overriding royalty of 5% of production
from the SE/4 NW/4 Section 2. Said lease is also subject
to an overriding royalty of 5% of production from NW/4 SW/4
Section 2.

8. Serial No. B-8814

M-32
Lessor: State of New Mexico
Lessee: Malco Refineries, Inc.
Date: September 10, 1940
Description: T-18-S, R-27-E, Section 2, NE/4 SW/4. SAVE AND EXCEPT
all rights from surface to a depth of 1700 feet.
Note: This lease is subject to an overriding royalty of 5% of
production.

9. Serial No. LC 067849

M-83
Lessor: United States of America
Lessee: Malco Refineries, Inc.

9. (Cont'd)

M-83

Date: September 1, 1948

Description: T-17-S, R-27-E, Section 27, N/2, N/2 S/2; Section 28, NE/4 NE/4; Section 34, W/2 NW/4, SW/4; Section 35, NW/4 NW/4.

Note: This lease is subject to an overriding royalty of 1/2 of 1% of production.

10. Serial No. LC 050158

PA-45

Lessor: United States of America

Lessee: Malco Refineries, Inc.

Date: December 31, 1938

Description: T-17-S, R-27-E, Section 26, E/2 E/2, S/2 SW/4; Section 27, S/2 S/2; Section 34, NE/4, W/2 SE/4; Section 35, SW/4 NW/4, E/2 NW/4, E/2 NE/4. SAVE AND EXCEPT all rights from surface to a depth of 2500 feet as to E/2 NE/4, E/2 NW/4, Section 35. AND SAVE AND EXCEPT all rights from surface to a depth of 2000 feet as to all of the above described land except E/2 NE/4, E/2 NW/4, Section 35.

Note: Subject to an overriding royalty of 2-1/2% of production.

11. Serial No. LC 026874 (a)

Lessor: United States of America

Lessee: Malco Refineries, Inc.

Date: May 1, 1951

Description: T-18-S, R-27-E, Section 6, SE/4 SE/4. SAVE AND EXCEPT all rights from surface to a depth of 2500 feet.

Note: This lease is subject to a production payment of \$2000.00 payable out of 5% of production and is also subject to an overriding royalty equal to 1/2 of 1% of production.

12. Serial No. LC 026874 (b)

Lessor: United States of America

Lessee: Malco Refineries, Inc.

Date: April 16, 1935

Description: T-18-S, R-27-E, Section 6, NW/4 SE/4, Lot 2. SAVE AND EXCEPT all rights from surface to a depth of 2500 feet.

Note: This lease is subject to a production payment of \$2000.00 payable out of 5% of production and is also subject to an overriding royalty equal to 1/2 of 1% of production.

13. Serial No. LC 026874 (c)

M-157

Lessor: United States of America

Lessee: Malco Refineries, Inc.

Date: April 16, 1935

Description: T-18-S, R-27-E, Section 6, SW/4 NE/4; T-17-S, R-27-E, Section 33, SE/4 SW/4, SE/4 NE/4.

Note: This lease is not subject to any overriding royalties or other payments out of production.

14. Serial No. LC 065478 (b)

M-1534
Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: July 11, 1934
Description: T-18-S, R-27-E, Section 9, S/2 SE/4.
Note: This lease is subject to an overriding royalty of 3% of 7/8ths of production.

15. Serial No. LC 065478 (b)

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: July 11, 1934
Description: T-18-S, R-27-E, Section 10, N/2 NE/4.
Note: This lease is subject to an overriding royalty of 3% of production.

16. Serial No. LC 065478 (b)

M-1534
Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: July 11, 1934
Description: T-18-S, R-27-E, Section 3, NE/4, N/2 SE/4, E/2 SW/4, N/2 NW/4; Section 10, SE/4, S/2 NE/4. SAVE AND EXCEPT all rights from surface to a depth of 2500 feet as to NE/4, N/2 SE/4, E/2 SW/4, Section 3.
Note: This lease is subject to an overriding royalty of 3% of production from NE/4 Section 3.

17. Serial No. LC 065478 (a)

M-1534
Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: March 8, 1932
Description: T-18-S, R-27-E, Section 4, N/2 NW/4, SE/4 NE/4.
Note: This lease is subject to an overriding royalty of 7-1/2% of production.

18. Serial No. LC 064050 (a)

Lessor: United States of America
Lessee: Malco Refineries, Inc.
Date: January 1, 1951
Description: T-17-S, R-27-E, Section 34, E/2 NW/4, E/2 SE/4; Section 35, NW/4 SW/4.
Note: This lease is subject to an overriding royalty of 3% of production.

19. Serial No. LC 068361 (a)

Lessors: United States of America
Lessee: Donald B. Anderson
Date: December 1, 1949
Description: T-17-S, R-27-E, Section 25, W/2 NW/4; Section 26, W/2 NW/4, NW/4 SW/4.
Note: This lease is subject to an overriding royalty of 2% of production.

20. Serial No. LC 64384

Lessors: United States of America
Lessee: Malco Refineries, Inc.
Date: February 1, 1946
Description: T-18-S, R-27-E, Section 5, Lots 1 and 2, S/2 NE/4. SAVE AND EXCEPT all rights from surface to a depth of 3000 feet.
Note: This lease is subject to overriding royalties of 3% of production.

21. Serial No. E-5461

M-544
Lessors: State of New Mexico
Lessee: Malco Refineries, Inc.
Date: August 10, 1951
Description: T-18-S, R-27-E, Section 2, Lots 4 (NW/4 NW/4). SAVE AND EXCEPT all rights from surface to a depth of 2500 feet.
Note: This lease is subject to an overriding royalty of 4% of production.

22. Serial No. B-10456

Lessors: State of New Mexico
Lessee: Malco Refineries, Inc.
Date: July 10, 1943
Description: T-18-S, R-27-E, Section 16, SE/4 NW/4.
Note: This lease is not subject to any overriding royalties or other payments out of production.

23. Serial No. B-10021

N-18
Lessors: State of New Mexico
Lessee: J. E. Bedingfield
Date: January 11, 1943
Description: T-17-S, R-28-E, Section 31, SW/4 NE/4.
Note: Drilling operations were being conducted on this lease at the expiration of the secondary term thereof. In the event such operations result in production, Malco shall obtain title to this lease as to all depths below 2000 feet below the surface, in which event said lease as to such depths shall be subject to the terms and provisions of this agreement.

24. Serial No. B-7966

Lessor: State of New Mexico
Lessee: Malco Refineries, Inc.
Date: January 11, 1939
Description: T-17-S, R-28-E, Section 31, NE/4 SW/4.
Note: This lease is not subject to any overriding royalties or other payments out of production.

25. Serial No. 647

Lessor: State of New Mexico
Lessee: Barney Cockburn
Date: November 14, 1922
Description: T-17-S, R-28-E, Section 31, Lots 3 and 4 (W/2 SW/4).
SAVE AND EXCEPT all rights from surface to a depth of 3000 feet.
Note: This lease is subject to an overriding royalty of 1/8 of production.

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EXHIBIT "B"

1. Serial No. LC 070938

Lessor: United States of America
Lessee: Hugo A. Anderson, Jr.
Date: July 11, 1934
Description: T-18-S, R-27-E, Section 3, S/2 SE/4; Section 9, SW/4, N/2 SE/4, NE/4; Section 10, W/2. **SAVE AND EXCEPT** all rights from surface to a depth of 3000 feet as to SE/4 SE/4 Section 3.
Note: This lease is subject to an overriding royalty of 5% of production.

2. Serial No. LC 054205

Lessor: United States of America
Lessee: Hugo A. Anderson, Jr.
Date: September 21, 1931
Description: T-18-S, R-27-E, Section 8, N/2 NE/4, SE/4 NE/4, NE/4 NW/4, ~~SE/4 NE/4~~. **SAVE AND EXCEPT** all rights from surface to a depth of 3000 feet.
Note: This lease is subject to overriding royalties of 5% of production.

3. Serial No. NM 0758

Lessor: United States of America
Lessee: Herman E. Harrington
Date: January 1, 1940
Description: T-18-S, R-27-E, Section 17, E/2 NW/4, SW/4 SE/4; Section 20, NW/4 NW/4, W/2 NE/4, SE/4 NE/4; Section 29, SE/4, E/2 NE/4, E/2 SW/4, SE/4 NW/4; Section 30, S/2 SE/4, NE/4 SE/4, SE/4 NE/4; Section 31, SE/4, NE/4 NE/4, SW/4 NE/4, NE/4 SW/4, SE/4 NW/4.
Note: This lease is subject to an overriding royalty of 5% of production.

4. Serial No. LC 070678

Lessor: United States of America
Lessee: Hugo A. Anderson, Jr.
Date: January 1, 1940
Description: T-18-S, R-27-E, Section 8, S/2 SE/4, W/2 NW/4, SE/4 NW/4, N/2 SW/4. **SAVE AND EXCEPT** all rights from surface to a depth of 3000 feet as to NW/4 NW/4, Section 8.
Note: This lease is subject to overriding royalties of 12-1/2% of production.

5. Serial No. LC 055383 (b)

Lessor: United States of America
Lessee: Hugo A. Anderson, Jr.
Date: April 16, 1935
Description: T-17-S, R-27-E, Section 29, W/2 SW/4; Section 30, NE/4; Section 31, N/2 NE/4; Section 33, W/2 NE/4, NE/4 NE/4, S/2 SE/4, SW/4 SW/4.
Note: This lease is subject to an overriding royalty of 5% of production.

6. Serial No. LC 055383 (a)

Lessor: United States of America
Lessee: Hugo A. Anderson
Date: May 16, 1931
Description: T-18-S, R-27-E, Section 5, E/2 SE/4, S/2 SW/4. SAVE AND EXCEPT all rights from surface to a depth of 3000 feet as to S/2 SW/4, Section 5.
Note: This lease is subject to overriding royalties of 12-1/2% of production.

7. Serial No. LC 070937

Lessor: United States of America
Lessee: Hugo A. Anderson, Jr.
Date: March 8, 1932
Description: T-18-S, R-27-E, Section 4, W/2 SW/4, NE/4 SW/4, N/2 NE/4, SW/4 NE/4. SAVE AND EXCEPT all rights from surface to a depth of 3000 feet as to W/2 SW/4, Section 4.
Note: This lease is subject to overriding royalties of 5% of production.

EXHIBIT "C"
OPERATING AGREEMENT

STATE OF NEW MEXICO }
COUNTY OF EDDY }

This agreement, made and entered into as of the ___ day of _____, 195___, by and between MALCO REFINERIES, INC. (or WESTCOAST HYDROCARBONS, INC., as the case may be), a corporation, hereinafter referred to as "Lessee", and Stanolind Oil and Gas Company, a corporation, hereinafter referred to as "Operator":

WITNESSETH:

THAT WHEREAS, Lessee is the owner of the following described oil and gas lease, insofar as said lease covers the following described land, to wit:

Serial No.

Lessor:

Lessee:

Date:

Description:

and

WHEREAS, Lessee desires to grant unto Operator an undivided 1/2 interest in and to the exclusive right to drill and operate the above described land for the discovery and production of oil and gas under the terms and provisions of the above described lease;

NOW, THEREFORE, for and in consideration of the sum of \$10.00 and other good and valuable considerations paid by Operator to Lessee, the receipt of which is hereby acknowledged, it is understood and agreed by and between the parties hereto as follows:

1. Lessee does hereby give, grant, transfer and convey unto Operator an undivided 1/2 interest in and to the exclusive right to drill and operate on the abovedescribed land for the discovery and production of oil and gas, together with a like undivided interest in and to the right to take and appropriate the oil and gas produced therefrom, subject to the terms and provisions of the above described lease for and during the term of said lease. Operator shall pay and bear 1/2 of all overriding royalties and other payments out of production to which the above described lease, insofar as it covers the above described land, is presently subject.

2. Lessee shall make a bona fide effort to pay all rentals which become due and payable under the terms and provisions of the above described lease and within fifteen days after receipt of Lessee's billing therefor, Operator shall reimburse Lessee for 1/2 of such rentals so paid, insofar as such rentals are applicable to the above described land.

The provisions hereof shall inure to the benefit of and shall be binding upon the parties hereto, their respective heirs, successors and assigns.

EXECUTED as of the day and year first hereinabove written.

ATTEST:

Secretary

MALCO REFINERIES, INC.

BY _____
President

OR

ATTEST:

Secretary

WESTCOAST HYDROCARBONS, INC.

BY _____
President

LESSEE

ATTEST:

Assistant Secretary

STANOLIND OIL AND GAS COMPANY

BY _____
Attorney in Fact

OPERATOR

(Acknowledgements)

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EXHIBIT "D"

OPERATING CONTRACT COVERING OPERATION
AND DEVELOPMENT OF LEASE ACREAGE

This agreement, made and entered into as of the ___ day of _____, 1953, by and between Stanolind Oil and Gas Company, a corporation, hereinafter referred to as "Stanolind", or "Operator", and Malco Refineries, Inc., a corporation, and Westcoast Hydrocarbons, Inc., a corporation, hereinafter referred to separately as "Malco" and "Westcoast", and jointly as "Non-Operators":

WITNESSETH:

THAT WHEREAS, Stanolind and Malco each represents that it is the owner of an undivided 1/2 interest in and to the oil and gas leases described in Section I of the Schedule of Leases attached hereto, marked Exhibit "1", and made a part hereof, insofar as said leases cover the land described in ~~Section I of said~~ Schedule of Leases; and

WHEREAS, Stanolind and Westcoast each represents that it is the owner of an undivided 1/2 interest in and to the oil and gas leases described in Section II of the Schedule of Leases attached hereto, marked Exhibit "1", and made a part hereof, insofar as said leases cover the land described in Section ~~I~~ II of said Schedule of Leases; and

WHEREAS, the land covered by said leases described in Sections I and II of said Schedule of Leases and affected by this agreement is situated in Eddy County, New Mexico, and is hereinafter sometimes referred to as the "lease acreage"; and

WHEREAS, subject to the terms, covenants and conditions hereinafter set forth, the parties hereto have agreed upon the operation and development of said lease acreage hereunder for the joint account of the parties hereto;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and promises hereinafter contained, to be kept and performed by the parties hereto, it is hereby agreed as follows:

1. OPERATOR:

Subject to the terms, covenants and conditions hereinafter set forth, Stanolind, for and during the term of said leases, or any of them, or of any extension or renewal thereof, is hereby designated as the Operator of the lease acreage covered hereby and of all the physical equipment of the parties hereto used, had or obtained in connection with the operation and development of said lease acreage for the joint account of the parties hereto. As the Operator, Stanolind shall have the exclusive control and management of the operation and development of said lease

H. D. 4 2

acreage for the joint account of the parties hereto. All production obtained from the lease acreage described in Section I of the Schedule of Leases attached hereto and all material and equipment acquired hereunder for the joint account of the parties hereto and in connection with the operation and development of said portion of said lease acreage shall be owned by the following parties in the following proportions: Stanolind - 50%, Malco - 50%. All production obtained from the lease acreage described in Section II of the Schedule of Leases attached hereto and all material and equipment acquired hereunder for the joint account of the parties hereto and in connection with the operation and development of said portion of said lease acreage shall be owned by the following parties in the following proportions: Stanolind - 50%, Westcoast - 50%.

Except as may be authorized by the mutual agreement of all the parties hereto, Operator shall not permit or suffer any lien or other encumbrances to be filed or to remain against any lease or physical equipment covered hereby as a result of its operations hereunder.

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees, in connection with operations hereunder, shall be determined by Operator. All employees and contractors used in operations hereunder shall be the employees and contractors of Operator and not the employees or contractors of the Non-Operators, or either of them.

In the event that the Operator should transfer all its interest in said lease acreage, the right of operation hereunder shall not pass to the Operator's transferee, but the remaining parties hereto and the Operator's transferee shall endeavor to agree upon a new Operator. In the event Stanolind shall transfer all of its interest in the lease acreage, it shall not be relieved of the performance of its obligations, as created under the terms of this agreement, unless and until a new Operator satisfactory to Non-Operators herein has been designated and assumes said obligations.

2. LOSS OR FAILURE OF TITLE:

In the event of the loss or failure of the title, in whole or in part, of any party hereto to any lease, or any interest therein, covered hereby, the interest of such party in and to the production obtained from the lease acreage shall be reduced in proportion to such loss or failure of title as of the date

such loss or failure of title is finally determined; provided that such revision or ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided, further, that each party hereto whose title has been lost or has failed, as aforesaid shall indemnify the other party or parties hereto against, and shall hold such other party or parties harmless from, all loss, cost, damage and expense which may result from, or in any manner arise because of, the delivery to such party of production obtained hereunder from lease acreage covered hereby or the payment to such party of proceeds derived from the sale of any such production, prior to the date said loss or failure of title is finally determined.

3. DURATION OF AGREEMENT:

~~This~~ agreement shall remain in full force and effect, unless sooner terminated by the mutual agreement of the parties hereto, so long as any lease covered hereby, or any extension or renewal thereof, remains in full force and effect, whether by production or otherwise; provided, that, if a party hereto should transfer all or part of its interest in leases covered hereby or if a party's title should fail in whole or in part, this agreement shall not thereby terminate, except as to a party which thereafter retains no interest covered hereby.

4. COSTS AND EXPENSES:

Operator initially shall advance and pay all costs and expenses for the drilling, completing, equipping and, with respect to dry holes, the plugging and abandoning of all wells drilled on the lease acreage covered hereby. Non-Operators shall reimburse Operator, free and clear of any interest charges, for 1/2 of such costs and expenses solely by permitting Operator to receive, after deduction of all royalty, overriding royalty and other payments out of production to which the lease acreage presently is subject, and after deducting all expenses of operating and maintaining such wells, including ad valorem, gross production and all other taxes, all of the production applicable to Non-Operators' interest in the lease acreage covered hereby, all proceeds from the sale of Non-Operators' interest in such production, all income or revenue derived from Non-Operators' interest in the operation of all wells drilled hereunder, until such time as Operator has received from Non-Operators' interest in such wells a sum equal to 100 per cent of Non-Operators' proportionate share of the cost of drilling, completing, equipping, and, with respect to dry holes, plugging and abandoning/
such

wells, whereupon such wells and the production therefrom shall be owned by the parties hereto in the proportions set out in Article 1 hereof. If at any time after Operator shall have reimbursed itself for all costs and expenses incurred in connection with the drilling, completing, equipping, operating, plugging and abandoning of wells drilled hereunder by receiving Non-Operators' share of production as above provided, additional operations by Operator on the lease acreage covered hereby result in a deficit in the joint account, Operator shall resume the taking of Non-Operators' share of production from all producing wells until such time as it has been reimbursed for all costs and expenses incurred in connection with the drilling, completing, equipping, operating, plugging and abandoning of all wells drilled hereunder. At all times that Operator shall have been reimbursed for the drilling, completing, equipping, plugging and abandoning of all wells hereunder in the manner hereinabove in this paragraph provided, Operator and Non-Operators shall share in the costs and expenses incurred in the operation of such wells in the proportions set forth in Article 1 hereof and Operator shall charge to the Non-Operators their respective proportionate shares of such costs and expenses as follows:

Land and leases described in Section I of the Schedule of Leases attached hereto:

Malco - 50%

Land and leases described in Section II of the Schedule of Leases attached hereto:

Westcoast - 50%

All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the schedule of accounting procedure, attached hereto, marked Exhibit "2" and made a part thereof; provided, however:

(a) that the Operator shall not apportion any part of the salaries and expenses of its district superintendent, of other general district employees or of district office expenses to the joint account as provided in paragraph 11 of Section II of said Exhibit "2"; and the monthly per well overhead rates set forth under paragraph 12 of Section II of said Exhibit "2" and those set forth in subparagraph (b) hereof, if applicable, shall be in lieu of any charges for any part of the compensation or salaries paid to the Operator's district superintendent and to other general district employees and shall be in lieu of any charges for district office expenses as well as the Operator's

division office and principal business office expenses, but said overhead rates shall not be in lieu of any charges for any part of the compensation or salaries paid to the Operator's field superintendent and general field employees and shall not be in lieu of any charges for field office and camp expenses. In the event of any conflict between the provisions contained in the body of this agreement and those contained in said Exhibit "2", the provisions in the body of this agreement shall govern to the extent of such conflict.

(b) In the event that any well is drilled hereunder, the depth of which according to the table hereinafter in this subparagraph (b) set forth would require overhead rates different from those set forth in subdivision A to D, inclusive, of paragraph 12 of Section II of Exhibit "2", attached hereto, notwithstanding the provisions of said Exhibit "2" the Operator shall charge with respect to such well the overhead rates required by the following table, depending on its depth:

| Well Depth | Drilling Wells | Producing Wells | | |
|-----------------|-------------------|-----------------|-----------|--------------------|
| | | First Five | Next Five | All Wells Over Ten |
| Under 4,000' | \$100.00 | \$25.00 | \$15.00 | \$10.00 |
| 4,000' - 8,000' | \$175.00 | \$40.00 | \$30.00 | \$25.00 |
| Over 8,000' | \$300.00 | \$60.00 | \$50.00 | \$40.00 |

(c) Whenever the Operator finds it necessary to furnish from its warehouse or other properties material which was acquired by it at prices exceeding those specified in paragraph 2 of Section III of Exhibit "2", attached hereto:

(i) before so doing, the Operator shall notify each Non-Operator regarding such material and the latter shall have ten (10) days after the receipt of such notice within which to advise the Operator whether it elects to furnish in kind at the location or at the railway receiving point nearest the location any of such material which is capable of being separately furnished in kind; (ii) any Non-Operator so electing shall have the right to furnish in kind such portion of comparable material as is acceptable to the Operator in lieu of the same being furnished by the Operator and shall bill the Operator for such material so furnished at the current market price: Provided, that the Operator shall not be obligated to accept any such material as, in its opinion, is, for any reason, not suitable for use as intended; (iii) the Operator shall charge to the joint account an amount equal to the sum of its direct costs and expenses (not including any salaries or expenses of its personnel which are included in the overhead charges hereunder) incurred by it in acquiring and shipping and transporting to the location all such material that is so furni-

shed by the Operator plus the additional direct costs and expenses which the Operator would have charged had it furnished the material so furnished by the respective Non-Operators, if any; and (iv) each Non-Operator shall pay the Operator its proportionate part of said amount, less the sum of the credits to which it is entitled, as hereinafter in this subparagraph (c) provided. Each furnishing Non-Operator shall receive credit for (i) the amount of its billing to the Operator for material furnished in kind by said Non-Operator; and (ii) a proportionate part of an amount equal to the difference between the total amount charged by the Operator to the joint account for all material so furnished by the Operator and all Non-Operators and the amount of the total current market price of all such material, such proportionate part being the ratio which the material furnished in kind by such Non-Operator bears to all the material of the same category furnished by the Operator and all Non-Operators.

5. OPERATOR'S LIEN:

Operator is hereby granted a lien upon the working interest and leasehold estate of each Non-Operator covered hereby and upon each Non-Operator's interest in the well or wells located on lease acreage covered hereby, in the production obtained from said well or wells and in the physical equipment used, had and obtained in connection with the operation of said well or wells to secure the payment of said Non-Operator's proportionate share of said costs and expenses and of said estimated costs and expenses.

6. DRILLING WELLS ON BASIS OF COMPETITIVE CONTRACT PRICE:

Operator shall have the right to drill any well to be drilled hereunder on lease acreage covered hereby with its own or rented tools and equipment or to cause such well to be drilled by a responsible drilling contractor selected by Operator. Each such well shall be drilled on the basis of the competitive contract price prevailing in the field at the time the parties hereto agree to the drilling thereof; and, if possible, such price shall be agreed upon by the parties hereto in advance. If the parties hereto are unable mutually to agree on said competitive contract price, Operator shall obtain bids from at least three (3) responsible drilling contractors who are ready, able and willing to drill a well of the type contemplated by the parties hereto on lease acreage covered hereby; and said competitive contract price shall be the lowest acceptable bid received which will result in the most economical drilling of said well.

7. DISPOSAL OF PRODUCTION:

Each of the parties hereto shall own and, at its own expense, shall take in kind or separately dispose of its proportionate part of all the oil, gas, casing-head gas and other hydrocarbon substances produced and saved from the lease acreage covered hereby, exclusive of the production which may be used by the Operator in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided, that each of the parties hereto shall pay, or secure the payment of, the royalty interest in its proportionate part of said production. At such time or times as a Non-Operator shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Operator shall have the authority, revocable by Non-Operator at will, to sell all or part of such production to others at the same price which Operator receives for its own portion of the production. All such sales by Operator of Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

8. INSURANCE:

Operator or Operator's contractors or subcontractors shall carry for the benefit of the joint account insurance to cover drilling operations on the lease acreage covered by this agreement as follows:

- (a) Workmen's compensation insurance, including employers' liability: In compliance with the workmen's compensation laws of the State of New Mexico.
- (b) Contractors' and manufacturers' public liability insurance: In amounts of \$50,000.00 for injuries to one person and \$100,000.00 aggregate.
- (c) Automobile public liability and property damage insurance: In amounts of \$100,000.00 for injuries to one person, \$300,000.00 for injuries in one accident, and \$10,000.00 for property damage.

With respect to producing operations conducted hereunder on the lease acreage covered hereby by Operator for the joint account of the parties hereto, Operator shall not be required to purchase or carry any insurance, it being understood that, with respect to all risks incident to such operations, the parties hereto shall be self insurers, each to the extent of its interest in the lease acreage covered hereby.

9. DRILLING:

No well shall be drilled on said lease acreage by the Operator for the joint account without the mutual agreement thereto by all the parties hereto owning

interests in the lease acreage upon which such well is to be drilled. If the parties hereto owning interests in such lease acreage cannot mutually agree upon the drilling of a particular well upon said lease acreage, the party desiring to drill may do so; but such well shall be drilled, completed, tested and equipped, or, if a dry hole, shall be drilled, plugged and abandoned, at the sole cost, expense and risk of the party drilling said well. If the well is completed as a producer, the drilling party shall make a thirty (30) day production test of said well (exclusive of shut-down days), in accordance with the allowable set by State or Federal authority, and shall keep a thirty (30) day record thereof. The drilling party shall notify the non-drilling party of the completion of said well, and shall furnish to the non-drilling party a correct copy of the record of said production test. The non-drilling party shall have ten (10) days after the receipt of said copy in which to elect whether or not said party will participate in the production from said well. If the non-drilling party elects to participate therein, said party, within thirty (30) days after the receipt of the copy of the record of said production test, shall pay to the drilling party an amount equal to One-Hundred and Fifty per cent (150%) of the amount that would have been charged to said non-drilling party for the drilling and completing of said well under the provisions of this agreement had said party originally participated in the drilling of said well. In the event that said payment is so made, the non-drilling party shall participate from the date of first production in the ownership of and production from said well to the extent of said party's interest in the lease acreage covered hereby. If the non-drilling party, within the above mentioned period of ten (10) days, fails to elect or elects not to participate therein, said non-drilling party shall not participate in the ownership of or production from said well, but said party shall execute and deliver to the drilling party an assignment, without warranty of title, covering all of the non-drilling party's interest in said well and the working interest and leasehold estate in a tract surrounding said well of an area equal to that prescribed for one well by the spacing rule of State or Federal authority; provided, that, if there be no such established spacing rule, the assignment shall cover the non-drilling party's interest in said well and the leasehold estate in the forty (40) acres surrounding said well if it is an oil well or in three hundred twenty acres surrounding said well if it is a gas well, as nearly as possible in the form of a square, with said well in the approximate center thereof; and provided, further, that such

assignment shall convey the assignor's leasehold interest down to and including the horizon from which said well is producing, but shall not include any other well or any other producing formation.

10. ABANDONMENT OF WELLS:

No well which is producing or has once produced shall be abandoned without the mutual consent thereto of the parties hereto owning interests in said well. If either party desires to abandon a well and the other party does not agree to abandon same, the party desiring to abandon shall so notify the other party in writing and the latter shall have ten (10) days after the receipt of such notice in which to elect whether to agree to such abandonment. If the party receiving said notice elects to agree to such abandonment, such well shall be abandoned by the Operator at the expense of the joint account and as much as possible of the casing and other physical equipment in and on said well shall be salvaged for the benefit of the parties hereto. If the party receiving said notice fails so to make an election or elects not to agree to said abandonment, such party shall purchase the interest of the party desiring to abandon in said well, in the physical equipment therein and thereon and in that portion of the working interest and leasehold estate hereinafter in this Article 10 provided; and, within twenty-five (25) days after the receipt of said notice by the party not electing to abandon, the party desiring to abandon shall execute and deliver to the other party an assignment, without warranty of title, of its interest in said well and physical equipment and in the working interest and leasehold estate in a tract surrounding said well of an area equal to that prescribed for one well by the spacing rule of State or Federal authority; provided, that, if there be no such established spacing rule, the assignment shall cover the interest of the party desiring to abandon in said well and physical equipment and the working interest and leasehold estate in the forty (40) acres surrounding said well if it is an oil well or in the three hundred twenty (320) acres surrounding said well if it is a gas well, as nearly as possible in the form of a square, with said well in the approximate center thereof; and provided, further, that such assignment shall convey the assignor's leasehold estate down to and including the horizon from which said well is producing, or last produced, but shall not include any other well or any other producing formation. In exchange for said assignment, the purchasing party shall pay to the assigning party the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined

in accordance with the provisions of the accounting procedure, attached hereto as Exhibit "2".

11. TAXES:

Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their respective proportionate shares of such tax payments as provided by the accounting procedure, attached hereto as Exhibit "2".

In the event that any taxable valuation is assessed upon or against said property or any portion thereof, which Operator deems to be unreasonable, it shall be the duty of Operator to protest said taxable valuation within the time and manner as prescribed by law and to prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final determination. When any such protested valuation of such property shall have been determined, Operator shall pay for the joint account the taxes thereon, together with any interest or penalty accrued by reason of such protest, and shall bill Non-Operators for their respective proportionate shares of such payments in accordance with the accounting procedure, attached hereto as Exhibit "2".

12. RELATION OF PARTIES:

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in the lease acreage covered hereby shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this agreement.

13. ACCESS TO PREMISES, LOGS AND REPORTS:

Operator shall keep accurate logs of all wells drilled on said lease

acreage, which logs shall be available at all reasonable times for inspection by Non-Operators. Upon request by a Non-Operator, Operator shall furnish to such Non-Operator copies of said logs, samples of cores and cuttings of formations encountered, and monthly progress reports relative to the development and operation of said lease acreage, together with any other information which may be reasonably requested pertaining to such wells. Non-Operators shall have access to said lease acreage and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

14. SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE:

No lease or leases covered hereby shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties hereto mutually consent thereto in writing. In the event that less than all the parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases covered hereby and the other party (whether one or more) does not consent or agree thereto, the party (whether one or more) so electing shall notify the other party not less than sixty (60) days in advance of such surrender, expiration, abandonment or release and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all its rights, title and interest in and to said lease or leases, the well or wells located thereon and the casing and other physical equipment in or on said well or wells. If the party not so electing fails to request such assignment within said period of sixty (60) days, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases or any part thereof. In the event such assignment is so requested, the party to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the assigned lease acreage, said value to be determined in accordance with the provisions of the accounting procedure, attached hereto as Exhibit "2". After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the lease acreage, with respect to the assigned lease or leases. If more than one of the parties hereto are assignees in any such assignment, such assignees shall take the rights, property and interests assigned thereby, and shall pay said salvage value, in the ratio of their respective interests in the lease acreage covered hereby just prior to the assignment.

15. LAWS AND REGULATIONS:

This agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and order^s. In the event this agreement or any provision hereof is, or the operations contemplated hereby are found to be, inconsistent with or contrary to any such law, rule, regulation or order, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and, as so modified, shall continue in full force and effect.

16. FORCE MAJEURE:

In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make payments of amounts due hereunder, upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure as far as possible shall be remedied with all reasonable dispatch.

The term "force majeure" as employed herein shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, governmental restraint and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

The settlement of strikes, lockouts and other labor difficulty shall be entirely within the discretion of the party having the difficulty. The above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

17. NOTICE:

Except as herein otherwise expressly provided, all notices, reports and other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to the parties hereto, respectively, as follows:

H D 4 F

Malco Refineries, Inc.
P. O. Box 660
Roswell, New Mexico

Westcoast Hydrocarbons, Inc.
P. O. Box 660
Roswell, New Mexico

Stanolind Oil and Gas Company
P. O. Box 1410
Fort Worth, Texas

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States post office, addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article 17 by notifying the other parties hereto thereof in writing.

18. CONTRIBUTIONS FROM OTHERS:

If any party hereto at any time while this agreement is in force receives a contribution of cash or acreage, or both, toward the drilling of any well upon the lease acreage covered hereby, said contribution shall be owned by the parties hereto in the ratio of their respective interests in said well. All cash contributions so received shall be paid to Operator and by it credited to the parties hereto according to their respective interests in said well; provided, that such portion of said cash contribution which is credited to each party hereto as is not required to liquidate any unpaid balance of indebtedness due by said party to the Operator shall be paid by the Operator to such party. In the event that an acreage contribution is made to one of the parties hereto, the party to which such contribution is made shall promptly execute and deliver to the other parties hereto an assignment, without warranty, covering proportionate interests in said acreage equal to their respective interests in the well for which said contribution was made.

19. ROYALTY, OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC.:

All royalty, overriding royalties, production payments, carried working interests, net profits obligations, and royalty in excess of the usual one-eighth (1/8) to which any party's lease covered hereby is subject shall be borne and paid by such party in accordance with the provisions of the lease, assignment or other instrument creating or pertaining to such obligations.

20. EFFECT OF AGREEMENT:

The terms, covenants and conditions of this agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns; and said terms, covenants and conditions shall be covenants running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

ATTEST:

Assistant Secretary

STANOLIND OIL AND GAS COMPANY

By _____
Attorney in Fact

ATTEST:

Secretary

MALCO REFINERIES, INC.

By _____
President

ATTEST:

Secretary

WESTCOAST HYDROCARBONS, INC.

By _____
President

(Acknowledgements)