

[illegible]

1057-1057

0 391 2137

FORT WORTH, TEXAS

JAMES L. MORRIS

0244.96

Mr. Ralph Lowe
P. O. Box 832
Midland, Texas

A test well for oil and gas known as the Minerva J. Wallace No. 2 located in the Southeast Quarter of the Southwest Quarter (SE/4 of the SW/4) of Section 31, Township 11 South, Range 38 East, Lea County, New Mexico, has been drilled by The Pure Oil Company and operations therein by this Company have been discontinued. This letter will evidence the agreement entered into between you and this Company, sometimes referred to as "Pure" herein, relative to certain testing and other operations to be conducted by you in said test well.

You agree that you will commence or cause to be commenced operations for the re-entering of said test well for the purpose of conducting testing operations in an effort to complete same as a producer of oil or gas in paying quantities, and you agree that so long as you continue to prosecute such operations you will do so with due diligence and in a good and workmanlike manner.

You agree to furnish to this Company at 312 J. P. White Building, Roswell, New Mexico, detailed daily reports on all operations conducted by you in said test well, and you agree to furnish this Company in written or graphic form all data of a scientific nature obtained by you through your operations in said well.

Upon being furnished with satisfactory evidence that you have, as a result of the operations contemplated by this letter agreement, completed said test well as a producer of oil or gas or both in paying quantities and that all of the terms hereof with respect to your operations have been fully complied with by you, this Company will forthwith

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execute and deliver unto you an assignment, to the extent hereinafter specified and subject to the provisions hereinafter contained, without warranty of title either express or implied, covering all of its right, title and interest in and to the mineral leasehold estate in and under the Southeast Quarter of the Southwest Quarter (SE/4 of the SW/4) of Section 31, Township 11 South, Range 38 East, Lea County, New Mexico, from the surface to the base of the formation in which said well is completed and from which production is obtained, provided that in no event shall said assignment cover the leasehold estate in said land below the base of the Devonian formation regardless of the depth at which said well is completed as a producer.

The assignment hereinabove provided for shall be executed subject to all of the terms and provisions hereof and shall contain the following provision giving this Company the right and option to purchase the working interest oil and condensate produced from the assigned premises, to-wit:

"Assignor, at its option, but without obligation, shall have the right to purchase all of the working interest in the production of oil and condensate, if any, from the property herein assigned, at Assignor's posted market price for oil and condensate of like grade and quality in the vicinity of such production, and in the event Assignor has no posted market price, then at the prevailing posted market price of the major companies in the vicinity, and if there is no such posted market price, then at the prevailing market price in the vicinity. This option and the rights herein contained shall extend during the life of the leases herein assigned and may be exercised as often as desired by Assignor, giving thirty (30) days written notice of its election to exercise such right or to discontinue the exercise of such right or to resume the exercise of such right."

As a further consideration for the execution and delivery by this Company of such assignment, said assignment shall provide that this Company excepts and reserves unto itself, and you agree and obligate yourself to deliver to this Company as an overriding royalty free of all costs, except taxes, the following:

- (a) One-sixteenth of eight-eighths (1/16 of 8/8) of all oil produced and saved from the assigned premises;

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- (b) One-sixteenth of eight-eighths ($1/16$ of $8/8$) of all gas and casinghead gas produced and saved from the assigned premises; or at the option of Assignor, one-sixteenth of eight-eighths ($1/16$ of $8/8$) of the gross proceeds derived from the sale of all gas and casinghead gas produced and saved from the assigned premises;
- (c) One-sixteenth of eight-eighths ($1/16$ of $8/8$) of all other minerals produced and saved from the assigned premises.

All oil, gas and casinghead gas reserved by the Company under the terms hereof shall be delivered to the credit of this Company in the pipe line or pipe lines to which the wells on the assigned premises may be connected.

Said assignment shall further provide that in the event this Company owns less than the full seven-eighths ($7/8$) mineral leasehold estate in the oil and gas in and under any tract of land described therein, then as to any such tract, but only as to such tract, the overriding royalty interests reserved by this Company shall be reduced proportionately.

Said assignment shall further provide that the overriding royalty interest so reserved by this Company shall apply to any extension, renewal or modification of any leasehold estate to be so assigned to you, and to any new lease which may be acquired by you within six months from the expiration of the primary term of any of said leasehold estate so assigned to you under the provisions hereof, insofar as any such new lease, extension or modification may cover any of the lands covered by any of the leasehold estate to be so assigned to you.

In the event you earn an assignment under the terms hereof and thereafter you sell your entire right, title and interest in and to the leasehold estate and premises so assigned to you, then this Company agrees upon request from you to waive its call on the production as hereinabove reserved in this section 3 of this agreement.

4.

In event you have complied with all of the terms of this agreement in attempting to complete said well as a producer of oil or gas in paying quantities and such completion attempt is unsuccessful with the result that said well is determined to our satisfaction to be a dry hole,

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then to the extent that this Company has the right and authority to do so it agrees that you may complete said test well as a salt water disposal well in a zone above the top of the San Andres formation, provided you have first demonstrated to our satisfaction that such zone is salt water bearing and capable of receiving salt water. In the event the test is so completed as a salt water disposal well, this Company will to the extent hereinafter specified and subject to the provisions and reservations hereinafter contained assign to you all of its right, title and interest in and to said well and whatever rights it has to inject salt water into such zone through said well from the surface to the top of the San Andres formation only. All right, title and interest below the top of the San Andres formation shall be specifically reserved to this Company.

In addition it is agreed and the assignment will provide that Pure reserves unto itself the right to inject salt water into the same zone and through the same well to be assigned to you.

It is specifically understood and agreed and the assignment shall provide that said assignment will be without warranty of title either express or implied. It is also understood and agreed that The Pure Oil Company does not warrant or guarantee that you will have the right by virtue of this assignment from Pure to inject salt water through said well into any formation. It will be your responsibility to acquire any additional conveyances, licenses, easements and permits from the surface and mineral owners of the above and surrounding lands and from the State of New Mexico and any other governmental regulatory body, state or federal, exercising jurisdiction over the operations to be conducted by you.

5.

You agree to conduct any and all operations hereunder and contemplated hereby in strict compliance with all applicable federal and state laws, orders, rules and regulations.

6.

Regardless of whether you are successful in completing said well as a commercial producer or as a salt water disposal well, and whether or not you earn any assignment whatsoever under the terms hereof, you specifically agree to pay Pure for all recoverable casing

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now in said well above the top of cement. Such payment shall be made either by delivering equivalent new casing in kind to Pure f.o.b. Lovington, New Mexico, with New Mexico use tax and all other applicable taxes paid, or by paying in cash the market price for equivalent new casing in car load lots f.o.b. Lovington, New Mexico, in effect on the date of this letter agreement plus amount of New Mexico use tax and all other applicable taxes thereon.

For the purpose of determining the casing to be so paid for by you, it is agreed that there is now 11,606 feet of recoverable casing above the top of cement as reflected by temperature survey which casing is as follows:

<u>Description</u>	<u>Amount</u>
5-1/2" OD 20# 8 Rd. Thd. API Seamless Gr. N-80 RG. 2 LT&C Casing (Includes Amount above first Coupling located above top of cement and 1 full joint and 1 piece at top of hole)	2612'
5-1/2" OD 17# 8 Rd. Thd. API Seamless Gr. N-80 Rg 2 LT&C Casing	7305'
5-1/2" OD 17# Buttress T&C Seamless Gr. N-80 Rg. 2 Casing	1623'
5-1/2" OD 17# Seamless Gr. N-80 Rg. 2 Casing, Buttress X 8 Rd. API Crossover	66'

Pure also has 12,427 feet of 2-3/8" OD 4.70# 8 round thread, EUE, N-80, API seamless steel, R-2, T&C tubing at the above well location. You agree to purchase said tubing paying therefor the sum of sixty-five cents (65¢) per lineal foot in cash upon being billed.

In addition you agree to purchase the following item which is at or on said well paying therefor in cash upon being billed the price indicated opposite said item as follows:

1 - 18' x 7'8" Shop Made Cattleguard, Steel w/7 6-5/8" OD Pipe Cross Members w/ Equal Spacing, 7" Sheet Steel Skirt Below Rails on both sides, 12 - 80# Rail Runners and Folding Wings made of 2-7/8" OD Pipe	\$210.37
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After receipt of payment from you for all of the various items of casing, tubing and equipment listed above in accordance with the foregoing provisions, this Company will execute and deliver to you such bills of sale or assignments as are necessary in order to evidence your title to said casing, tubing and equipment.

7.

You hereby agree, bind and obligate yourself to protect, indemnify and save Pure wholly harmless from any and all loss, cost, claim, demand, expense, damages, liability, suits, actions, judgments and decrees in any wise growing out of, attributable to or resulting from (a) the breach or alleged breach of any express or implied covenant of the lease or leases covering, and insofar as it or they cover, the lands affected hereby or the laws of the state wherein said lands lie or the rules and regulations of the regulatory body, state or federal, exercising jurisdiction thereover, or (b) resulting from or as a consequence of loss or damage to any property whatsoever or the injury to or death of any person whomsoever, occurring or suffered or sustained from or by reason of any act, negligence, default or commission of you, your agents, servants or employees in, on, about, or in the proximity of said lands or in connection with the performance of this agreement, or which may in any manner or to any extent be attributable thereto. Without in any manner limiting the generality of the foregoing by enumeration, it is specifically agreed that you will hold this Company harmless against any and all claims for damages whatsoever arising out of your injection of salt water into said well.

8.

None of the rights covered by this agreement are to be assigned or otherwise encumbered by you without the written consent of The Pure Oil Company having been first obtained.

* * *

This letter is prepared in duplicate copies, each of which shall be treated as an original. If the foregoing represents your

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understanding of our agreement, then please so indicate by executing one copy of this agreement and returning same to us for our files. The remaining copy is for you.

Very truly yours,

THE PURE OIL COMPANY

By: Manager, Texas Producing Division
o/s J.L. Morris

ACCEPTED AND AGREED
to as of the 21st day
of January, 1957.

Ralph Lowe