

OFFICE OF THE ATTORNEY GENERAL
STATE OF TEXAS
AUG 6 7 53 AM '68

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July 11, 1968

Sun Oil Company
P. O. Box 2880
Dallas, Texas 75221

Attention: Mr. A. J. Viets

Re: Our File L-9515
Lea County, New Mexico

Gentlemen:

This letter sets forth the terms and provisions of the agreements which have been reached between you and us with respect to that certain oil and gas lease number K-2655 (hereinafter called the "subject lease") from the State of New Mexico to Shell Oil Company, dated August 21, 1962, insofar as said lease covers the following described tracts of land situated in Lea County, New Mexico, to-wit:

FIRST TRACT:

The North 1/2 of the Northwest 1/4 of Section 16, Township 11 South, Range 34 East; and

SECOND TRACT:

The South 1/2 of the Northwest 1/4 of Section 16, Township 11 South, Range 34 East.

Before September 9, 1968, you agree to commence the drilling of a well in exploration for oil and gas (hereinafter called the "test well") at a location of your choice situated upon some part of the above described tracts of land and after commencement to prosecute the drilling of said well to completion within 90 days after commencement to a depth sufficient to test the sought "C" formation, being the same formation located between the depths of 9,970 feet and 10,020 feet in the Skelly Oil Company - 3021 - Wells and Well No. 1 located in the Southwest 1/4 of Section 16, Township 11 South, Range 34 East, Lea County, New Mexico.

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July 11, 1966

2. If the test well is completed as a producer of oil or gas in commercial quantities and if you have otherwise complied with the terms of this agreement, we will execute and deliver to you an assignment, without warranty of title, express or implied, of (a) the subject lease insofar as it covers the tract of land described in the opening paragraph of this letter on which the test well is located (hereinafter called the "well-site tract"), and (b) an undivided one-half (1/2) interest in the subject lease insofar as it covers the other tract of land described in the opening paragraph of this letter. Such assignment shall be limited to a depth of 100 feet below the deepest depth penetrated by the test well. As to the tract other than the well-site tract, such assignment shall be made subject to the Operating Agreement attached hereto as Exhibit II. There shall be excepted from such assignment and reserved unto us, as an overriding royalty which shall be free and clear of all cost and expense of whatsoever nature, except production, severance and other similar taxes charged against or measured by the production accruing thereto, 12.5% of all oil, gas and other hydrocarbons produced and sold from depths above a depth of 100 feet below the deepest depth penetrated by the test well in the well-site tract. Such assignment shall provide that, at any time within sixty (60) days after the payout (as hereinafter defined), we shall have the right and option to convert our reserved overriding royalty into a 50% interest in the subject lease insofar as it covers the well-site tract. The payout shall occur on the first day of the month following the month during which there shall have been produced from the well-site tract 78,500 barrels of oil and associated gas and/or, in the event gas is produced from such tract not in association with oil, equivalent volumes of gas and liquids produced therewith determined by equating the price received by Assignee for the sale of such gas and liquids to the posted price of oil in the field on the dates of the sales. In the event we exercise such option, our reserved overriding royalty shall terminate as of the payout, and you shall promptly execute and deliver to us an assignment of a 50% interest in the subject lease insofar as it covers rights from the surface down to a depth of 100 feet below the deepest depth penetrated by the test well in the well-site tract, together with a like undivided interest in all personal property and equipment used or obtained in connection therewith, which interests shall be assigned to us free and clear of all liens and encumbrances created by, through or under you. The Operating Agreement attached hereto as Exhibit II shall be applicable to the well-site tract in the event we exercise the option herein accorded to us. Prior to the payout, you shall furnish to us a statement every 30 days reflecting the production from the well-site tract during the preceding 30-day period and also reflecting the number of barrels of oil remaining to be recovered by you prior to the payout.

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3. In the conduct of all of your operations under this agreement, you shall comply with all applicable laws, rules and regulations, and if the test well is not completed as a producer of oil or gas in commercial quantities, it shall be properly plugged and abandoned by you in accordance with applicable regulations; provided, however, you shall notify us prior to the abandonment of the test well and we shall have the right to take over the test well upon payment to you of the salvage value of any recoverable tubular goods therein.

4. The provisions of Exhibit I attached hereto shall constitute a part of this agreement as though the same were fully set forth herein.

If the foregoing is in accordance with your understanding of our agreement, please so indicate by signing the enclosed copy of this letter in the space provided below and return it to us prior to 5:00 p.m. on July 23, 1968, whereupon the terms and provisions hereof shall constitute a binding agreement between you and us.

Very truly yours,

GENERAL AMERICAN OIL COMPANY
OF TEXAS

By


James W. Goss, Vice-President

AGREED TO this 22 day
of July, 1968:

SUN OIL COMPANY

By 