

Case No.

465

Application, Transcript,
Small Exhibits, Etc.

CASE 465 - PICTURED CLIFFS UNIT
NO. 2

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR THE
PURPOSE OF CONSIDERING:

CASE NO. 465
ORDER NO. R-259

THE MATTER OF THE APPLICATION OF
LOWRY et al OPERATING ACCOUNT
FOR APPROVAL OF THE PICTURED
CLIFFS UNIT NO. 2 UNIT AGREEMENT
EMBRACING 160 ACRES IN RIO ARRIBA
COUNTY, NEW MEXICO, WITHIN TWP.
26 NORTH, RANGE 6 WEST, N.M.P.M.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a. m. on January 15, 1953, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this ^{16th} day of *January*, 1953 the Commission, a quorum being present, having considered said application and the evidence introduced in support thereof, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the proposed unit plan will in principle tend to promote the conservation of oil and gas and the prevention of waste.

IT IS THEREFORE ORDERED:

SECTION 1. That this order shall be known as the

PICTURED CLIFFS UNIT NO. 2 ORDER

SECTION 2. (a) That the project herein referred to shall be known as the Pictured Cliffs Unit No. 2 Unit Agreement, and shall hereafter be referred to as the "Project".

(b) That the plan by which the Project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Pictured Cliffs Unit No. 2 area referred to in the Petitioner's petition and filed with said petition, and said plan shall be known as the Three Pictured Cliffs Unit Agreement Plan, said plan being the same agreement for the operation of Pictured Cliffs Unit No. 1, Pictured Cliffs Unit No. 2, and Pictured Cliffs Unit No. 3.

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SECTION 3. That the Three Pictured Cliffs Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement this approval shall not be considered as waiving or relinquishing in any manner any rights, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said Pictured Cliffs Unit No. 2 agreement, or relative to the production of oil or gas therefrom.

SECTION 4. (a) That the unit area shall be:

NEW MEXICO PRINCIPLE MERIDIAN

Township 26 North, Range 6 West

Sec. 16 NW $\frac{1}{4}$

Total unit area: 160 acres, more or less

(b) That the unit area as herein defined, under terms of said unit agreement embraces the production of oil, gas, natural gasoline and associated fluid hydrocarbons insofar and only insofar as development and production from the Pictured Cliffs formation is concerned.

SECTION 5. That the unit operator shall file with the Commission an executed original or executed counterpart of the Three Pictured Cliffs Unit Agreement within 30 days after the effective date thereof.

SECTION 6. That this order shall become effective upon approval of said unit agreement of the Commissioner of Public Lands of the State of New Mexico, and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commissioner in writing of such termination.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

E. L. Mechem

EDWIN L. MECHEM, Chairman

E. S. Walker

E. S. WALKER, Member

R. R. Spurrer

R. R. SPURRIER, Secretary

S E A L

JAN 21 1953

CERTIFICATE OF APPROVAL AND CONSENTOF THE STATE OF NEW MEXICO

The undersigned, having this day examined an agreement providing for the cooperative or unit development and operation of a prospective oil or gas pool, field or area, and for certain related matters, which agreement is entitled "Unit Agreement for the Development and Operation of the Three Pictured Cliffs Unit Areas, Rio Arriba County, State of New Mexico", entered into between Tim G. Lowry and Todd M. Pettigrew as Unit Operator, and likewise subscribed by numerous Working Interest Owners and other interested parties, to which agreement this certificate is attached; and

WHEREAS, upon examination thereof the Commissioner finds:

(a) that such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy;

(b) that under the operations proposed the State will receive its fair share of the recoverable oil or gas in place under its lands in the area affected;

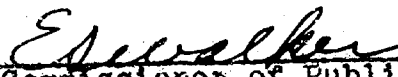
(c) that the agreement is in other respects for the best interests of the State;

(d) that the agreement provides for the unit operation and development of the area, for the allocation of production and the sharing of proceeds from the area and lands covered by said agreement on an acreage basis, as specified in said agreement, regardless of the particular tract from which production is obtained or proceeds are derived, and for other proper matters;

NOW, THEREFORE, by virtue of the authority conferred

upon me by Chapter 88 of the Laws of the State of New Mexico, 1943, approved April 14, 1943, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement as to the lands of the State of New Mexico included therein and the development and operation of such lands thereunder, subject to all the provisions of the aforesaid Chapter 88 of the Laws of the State of New Mexico, 1943. Upon effectiveness of such agreement each of the oil and gas leases on state lands within the unit area included in such agreement and committed thereto by the lessee(s), is hereby amended so that the terms of such lease will conform to the provisions of such agreement.

Executed this 20 day of January, 1953.



Commissioner of Public Lands of
the State of New Mexico

OPERATING AGREEMENT

This agreement entered into this 13th day of March, 1951, by and between TODD E. FERTIGREW and THOMAS W. DOBSON, 718 First National Bank Building, Dallas, Texas, and THOMAS G. LERRY, of Eckert, Paterson & Lemming, 135 South LaSalle Street, Chicago 3, Illinois (Herein at times collectively referred to as "Operator"), as parties of the first part, and CHARLES F. REUTER & CO., 57th Floor, 33 Pine St., New York 5, New York, SYLVESTER W. MULDOWNEY, 52 Wall Street, New York 5, New York, DAVID G. BAIRD, 65 Broadway, New York 6, New York, THEODORE S. WATSON, 149 Broadway, New York 6, New York, PHILIP KASH, 1 East 57th Street, New York, New York, WILLIAM H. COLVIN, 405 Lexington Avenue, New York 17, New York, HENRY SCARBOROUGH, First National Bank Bldg., Chicago 3, Illinois, and ERRIC S. MORSE, 30 Broad Street, New York 4, New York (Herein at times referred to collectively as "Non-Operators" and severally as "Non-Operator"), as parties of the second part,

W I T N E S S E T H

The parties of the second part heretofore have acquired undivided co-ownership interests, in the respective percentages set forth below, in the total leasehold working interests covered by the oil, gas and mineral lease(s) described in the schedule hereto attached, marked Exhibit "A" and by this reference made a part hereof. The parties of the second part may hereafter acquire undivided co-ownership interests in said respective percentages in the total leasehold working interests covered by other oil, gas and mineral leases; and any such undivided co-ownership interests hereafter acquired shall hereby be deemed included in the leasehold estate herein referred to with like effect as though the oil, gas and mineral leases to which they relate were described in said Exhibit "A" hereto; and the present or any future Operator is hereby authorized and empowered, in the names and on behalf of the parties of the second part, to execute such supplement to this Agreement as may be necessary or appropriate to confirm the inclusion of such after-acquired interests in the leasehold estate. The sum of such co-ownership interests is at times referred to herein as "the leasehold estate", and the land(s) covered by said lease(s) as "the leased premises".

The aforementioned co-ownership interests are now individually held and owned by the parties of the second part as follows:

Charles F. Reuter & Co.,	37/64ths
Sylvester W. Muldowney	6/64th
David G. Baird	4/64ths
Theodore S. Watson	4/64ths
Philip Kash	4/64ths
William H. Colvin	4/64ths
Henry Scarborough	4/64ths
Erric S. Morse	1/64ths

The parties of the second part have agreed that their respective co-ownership interests aforesaid shall be subject to this agreement, and that the leased premises shall be explored, developed, maintained and operated in accordance with the provisions hereof.

Now, therefore, in consideration of the premises and the mutual agreements herein contained, the parties hereto have agreed as follows:

Section 1. Interests of the Parties: The respective co-ownership interests hereunder individually held and owned by the parties of the second part are as aforesaid. Subject to the provisions of Section 13 hereof, such parties shall own the same respective interests in the oil, gas and other minerals produced from the leased premises, and shall bear and pay in like proportions the costs, expenses and liabilities incurred in the exploration, development, operation and maintenance of said premises, which are properly chargeable to the joint account hereunder.

Section 2. Operator: The Operator hereunder, subject to the terms and provisions of this agreement and the limitations herein stated, shall have exclusive charge and control of the exploration, development, operation, maintenance and management of the leased premises, and of the joint account property and equipment thereon and of all joint account wells thereon. Such Operator shall perform and carry on such duties in accordance with good oil and gas field practices, in the interest of Non-Operators, and as an ordinarily prudent operator, but shall have no responsibility whatever to Non-Operators for errors of judgment. On notice to any Operator hereunder given at any time by Non-Operators owning or holding 65 per cent, or more, of the leasehold estate, or their nominee, such Operator may be removed, and a new Operator appointed by the Non-Operators giving such notice of removal.

So long as Todd M. Pettigrew, Thomas W. Doswell and Tim G. Lowry are the Operators hereunder:

- (a) Operators Pettigrew and Doswell shall have exclusive authority and obligation as authorized hereunder with respect to all field operations and Operator Lowry shall have no responsibility with respect thereto, provided, however, that Pettigrew and Doswell shall not execute any drilling or other contracts relating to the leased premises until the same have been approved by Lowry.
- (b) Operator Lowry shall have exclusive authority and obligation with respect to keeping books of account, making calls upon the Non-Operators for funds and receiving and disbursing the same, provided, however, that Lowry shall make no disbursements for invoices for materials or services until the same have been approved by either Pettigrew or Doswell.
- (c) Pettigrew and Doswell shall be reimbursed by the joint account for their necessary expenses (for which they shall submit monthly statements) but receive nothing for their personal services.
- (d) Lowry shall be reimbursed by the joint account for his necessary expenses and reasonable compensation for his services, for which he shall submit monthly statements.

Section 3. Rentals and Royalties: Rentals and royalties, which may become due and payable under the lease(s) described

herein, and in respect of which provision for payment thereof has not otherwise been made, shall be paid by Operator and charged to the joint account. Operator shall exercise diligence in respect of such payments when due, but shall not be liable to Non-Operators for unavoidable or unintentional failure in respect thereof.

No Non-Operator shall be in any way released or relieved from bearing such Non-Operator's proportionate share of rentals and royalties except that should the other Non-Operators, or any of them, agree to pay such non-paying Non-Operator's said share against assignment to the paying Non-Operator or Non-Operators of such Non-paying Non-Operator's interest in the leased premises then, on payment by the paying Non-Operator or Non-Operators of such non-paying Non-Operator's said share, such non-paying Non-Operator is hereby released of all obligation in respect thereof.

Section 4. Exploration and Development: When and as Non-Operators owning 51 per cent of the leasehold estate shall notify Operator in writing of the decision of such Non-Operators to drill the initial test well on the leased premises, Operator shall undertake and carry out such operation for the joint account and at the joint expense of all the Non-Operators.

Subject to the immediately preceding paragraph, no well shall be drilled, nor shall any operations for deepening, reworking or recompleting any well in the same or a different horizon be undertaken, by the Operator or any Non-Operator on the leased premises at joint expense or for the joint account, prior to or after the discovery of oil or gas in paying quantities on the leased premises, without the consent in writing of all Non-Operators, except that Operator without consent may drill for the joint account any well on the leased premises required to offset or prevent drainage (herein called an "offset well") by any well located on a lease, which has a common boundary line or corner with the leased premises, or any obligatory well which forms the consideration for the acquisition of the leased premises.

If any Non-Operator, prior to or after the discovery of oil or gas in paying quantities on the leased premises, decides to conduct any drilling, re-working, or recompletion operations, not otherwise hereinbefore provided for, such Non-Operator shall give to all the other Non-Operators written notice of such decision, including the nature and proposed location of the operation, the proposed depth of completion or recompletion, and a detailed estimate of the cost thereof, and shall furnish Operator with a copy of such notice.

If all the other Non-Operators, within 30 days after such notice to them, elect to participate in such operation, the operations proposed shall be undertaken and carried out by Operator for the joint account and at the joint expense of all the Non-Operators. The failure of any Non-Operator to give a notice pursuant to the succeeding paragraph hereof shall be construed as an unconditional election to participate in the operation.

Any Non-Operator, electing, by written notice to Operator within said 30 day period, not to participate in such operation, hereby agrees that the participating Non-Operators hereby become entitled to receive, and, if any action on the part of such non-participating Non-Operator is required in connection therewith, such non-participating Non-Operator will do and perform such acts and things as shall enable such participating Non-Operators

to receive, in respective proportions equivalent to the respective proportions of the total costs, expenses and liabilities borne and paid by each of them in respect of such operation, all production, and proceeds therefrom, accruing to such non-participating Non-Operator's interest in the production from the well in respect to which such non-participation relates, until such participating Non-Operators shall have received from such interest (i) production having a value currently as produced, or proceeds, equivalent in the aggregate to three (3) times an amount equal to the proportionate part of all costs, expenses and liabilities incurred in such operation which would have been borne and paid by such non-participating Non-Operator if such Non-Operator had participated therein, and (ii) such non-participating Non-Operator's pro rata part of the operating and maintenance cost and expenses of such well during the period required to effect payment of the amount such participating Non-Operators are entitled to receive under the above clause (i). If and whenever such participating Non-Operators shall have received such amounts due, such well and all equipment therein shall thereupon be and become a joint account well and property, and such non-participating Non-Operator shall thereafter receive such Non-Operator's interest in production and proceeds from such well and own such Non-Operator's interest in such equipment.

Operator, promptly on receipt thereof, shall furnish the other Non-Operators with copies of any such non-participation notice, and shall undertake and carry out the proposed operation when and as instructed so to do by the participating Non-Operators, and charge their respective accounts proportionately as directed.

Section 5. Marketing of Production: Each Non-Operator at any time and from time to time shall have the right, and each Non-Operator hereunder hereby reserves the right, to take and receive in kind such Non-Operator's aforesaid share of the oil, gas or other hydrocarbons in place or produced and saved from the leased premises, or personally to sell, or direct the sale of, the same for such Non-Operator's benefit. At such times as such Non-Operator does not either take such Non-Operator's aforesaid share of the oil, gas or other hydrocarbons produced and saved from the leased premises in kind, or personally sell, or direct the sale of, same, then Operator is hereby authorized to sell, and shall sell, the same, subject to revocation of such authority at will upon written notice by such Non-Operator to Operator, to a financially responsible purchaser selected by Operator on terms that are, in the opinion of Operator, the most favorable that are obtainable, provided, however, that Operator shall make no contract of sale in respect thereof which will extend for a period of time longer than a reasonable period of time which is consistent with the minimum needs of the industry under the circumstances but which in no event shall exceed one (1) year. Such Non-Operator, upon request of Operator, shall execute and deliver any and all division orders necessary or appropriate for the effectuation of such sales by Operator.

Any Non-Operator, electing to take such Non-Operator's aforesaid share of the oil, gas or other hydrocarbons produced and saved from the leased premises in kind, shall furnish, at the sole expense of such Non-Operator, such facilities as may be necessary to effect division and measurement of, and to receive, the same on or before the date fixed in such Non-Operator's notice to Operator upon which delivery kind is to be commenced, and shall bear all extra expense incurred by Operator in making such delivery.

The foregoing right in any Non-Operator to take in kind

may not be exercised or enjoyed by such Non-Operator if and when such Non-Operator is or becomes in default in respect of any payments or amounts owed by such Non-Operator under this agreement, and when and while such default exists Operator may decline or cease making deliveries to or for the account of such Non-Operator of such Non-Operator's aforesaid share of the production in question.

Should any Non-Operator, exercising such right to take in kind, fail to furnish facilities, or not take delivery on the date fixed in the above notice to Operator, then such notice shall be void and of no effect.

Section 6. Contracts and Services: All wells drilled on the leased premises for the joint account, including all facilities and installations for storing, handling and transporting production in connection with producing, saving and marketing the same, shall be drilled or installed on a competitive contract basis, or at prices and upon terms approved by Operator and all of the Non-Operators. If any Non-Operator shall not state in writing to Operator within ten (10) days such Non-Operator's disapproval of prices or terms stated to such Non-Operator by Operator for such operations or installations, respectively, (when not on a competitive contract basis,) it shall be conclusively presumed that such Non-Operator approved the same.

If Operator undertakes to perform any such work or services for the joint account or furnishes any of Operator's facilities in connection therewith, Operator shall perform such work and services as an independent contractor and for a consideration and upon the same terms generally prevailing for like work and services in the area, and shall furnish such facilities on the basis of their reasonable rental value.

Section 7. Accounting, Billing, Payment and Advances: Operator shall incur for and charge to the joint account of all the Non-Operators interested in the leased premises, as authorized hereunder, all costs, expenses and liabilities incident to drilling, testing, equipping, completing, abandoning and salvaging material from, the joint account wells drilled on the leased premises, or incurred in connection with reworking, deepening or re-completing operations, or in acquiring, erecting and installing all property, structures, gathering lines, tanks, treating, measuring and other facilities and equipment necessary to operate and maintain such wells and carry on such operations and to produce, save and market the production therefrom by delivery to the purchaser in the field or from the lease tanks wherever situated. Operator shall also charge to such joint account all other costs, expenses and liabilities authorized to be incurred hereunder in connection with the leased premises or the leasehold interests. (Such charges to the joint account and matters relating to the accounting procedure between Operator and Non-Operators shall be governed by the provisions hereof and of the Accounting Procedure hereto attached, marked "Exhibit B", and by this reference made a part hereof; and, except as otherwise provided herein, billing by Operator and payment by Non-Operators shall also be governed by the applicable provisions of said Exhibit B.)

Except with respect to costs, expenses and liabilities authorized to be incurred hereunder as provided in the foregoing paragraph and in other sections hereof, Operator shall not incur for or charge to the joint account costs, expenses or liabilities in connection with any single project, or item of capital investment, in excess of Five Thousand (\$5,000.00) Dollars, without the written consent of each Non-Operator first obtained. If,

however, a project or investment is so approved, Operator may incur and charge to the joint account all costs, expenses and liability incident to such project, investment or operation without further approval being required.

Out of the collections from Non-Operators hereunder, Operator shall pay all costs, expenses and liabilities incurred for the joint account.

Operator may at any time and from time to time require each Non-Operator to pay in advance such Non-Operator's proportionate part of estimated expenditures hereunder for costs, expenses and liabilities incurred in connection with operations on, and construction of facilities and acquisition of equipment for or used in operating, the leased premises for the joint account, by making written request for such advance payment (stating the date the expenditure is to be made, such request to be made at least twenty (20) days prior to such stated expenditure date.) Each Non-Operator hereby agrees to pay to Operator the amount requested at least five (5) days before the date the expenditure is to be made, and if such payment is not so made the amount thereof, or any unpaid balance, shall bear and such Non-Operator shall pay, interest at the rate of six (6%) per cent per annum until paid. Adjustments between estimates and actual expenditures shall be made by Operator and the respective accounts shall be adjusted accordingly monthly.

Section 8. Inspection of Records and Operations: Each Non-Operator, and such Non-Operator's representatives, shall have the right at all reasonable times to inspect and audit Operator's books, records and invoices pertaining to any matter of accounting or otherwise in respect of the leased premises or the joint account.

Each Non-Operator, and such Non-Operator's representatives, shall, at such Non-Operator's and their risk, be entitled to access to the leased premises and all property held or used in connection therewith, to the wells which are being drilled, reworked or produced thereon and to the logs and drilling, production and other records pertaining thereto. Each Non-Operator shall also have the right to receive, delivered to such Non-Operator's representative at the well, samples of all cores and cuttings of sufficient size to be of laboratory value, and copies of all Schlumberger and other electrical logs, and of reports on any and all tests run on any wells.

Section 9. Insurance: Operator at all times during the drilling and/or operation of the leased premises shall carry and maintain in effect the following insurance applicable to all operations conducted under this agreement, except to the extent that, upon recommendation of the Operator, all Non-Operators shall approve the elimination or modification of any such insurance:

1. Workmen's Compensation under the laws of the State of
2. Public Liability and Property Damage, with limits of not less than \$100,000/\$200,000 and \$100,000.
3. Automobile Liability Insurance, with limits of \$100,000/\$200,000, and Automobile Property Damage Insurance, with limit of \$10,000.
4. Owner's Contingent or Protective Liability, with limits of not less than \$25,000/\$50,000.

5. Fire Insurance on the actual value of the installations and personal property subject to fire loss.

6. Wildstorm, Tornado, etc, with limits of the actual value of the installations and personal property subject to the joint account.

All other insurance purchased shall be subject to the prior approval of Non-Operators. Operator shall submit to a named nominee of Non-Operators certificates of insurance in evidence of the above coverage. Such certificates shall specify that in event of cancellation or material change in coverage, at least ten (10) days prior notice will be given said nominee of Non-Operators.

Section 10. Taxes: Unless otherwise arranged, each Non-Operator shall render for taxation such Non-Operator's interest in the lease(s) and pay such Non-Operator's own taxes, and Operator shall have no responsibility with respect thereto. Operator shall, however, pay and charge to the joint account all production, severance, gathering and other like taxes.

Section 11. Lien: Operator shall have, and hereby is expressly granted, a lien upon the interests of each Non-Operator in the lease(s) hereof, and in the wells, equipment, production, proceeds from production and other property relating to or used in connection with the operations on the leased premises, to secure to Operator all sums which may become due and owing by such Non-Operator under this agreement. Such lien may be enforced by Operator in the same manner as any other Mortgage lien, and such remedy, as well as any other right and remedy of Operator hereunder, shall be in addition to, and not in limitation of, all other rights and remedies which Operator may have or enjoy under the terms hereof or otherwise, at law or in equity.

As further security for the sums which may become due and owing hereunder to Operator, each Non-Operator's interest in the oil, gas and other hydro-carbons produced from the leased premises and the proceeds accruing to such interest.

No purchaser or other person, firm or corporation purchasing, storing, handling, transporting or otherwise dealing with the production from the leased premises shall be required to take notice of, or incur, any liability to Operator on account of such lien or the assignment of production and proceeds herein made, unless and until Operator shall have given notice in writing to such purchaser or other person, firm or corporation asserting that a Non-Operator interested in the leased premises has failed to pay the amounts due by such Non-Operator hereunder. Upon receipt of such notice, such purchaser or other person, firm or corporation shall be authorized to pay over to Operator the proceeds due and payable on the interest of the Non-Operator named in such notice in production from the leased premises, without obligation to look to the application thereof by such Operator, and the receipt of Operator shall be full acquittance and discharge of the amounts so paid.

Section 12. Surrender and Abandonment of Leases and Wells:

If any Non-Operator determines to surrender or abandon the lease(s) covered hereby, or any of them, or any producing well which has ceased to produce, or in such Non-Operator's opinion is not producing in paying quantities, such Non-Operator shall notify in writing all the other Non-Operators of such decision. Each Non-Operator receiving such notice shall have fifteen (15) days within which to elect by notice in writing delivered to

the Non-Operator giving notice of surrender or abandonment whether such Non-Operator will join therein or will accept assignment of such lease(s) or take over such well. If all the other Non-Operators desire to accept such assignment they shall acquire respective interests in the interest assigned proportionate to their aforesaid respective co-ownership interests in the leasehold estate. If the accepting Non-Operators be less than all of the other Non-Operators, they shall acquire equal proportions in the interest assigned, unless otherwise agreed between them. If any Non-Operator receiving notice of surrender or abandonment fails so to notify the Non-Operator giving such notice, such Non-Operator shall be conclusively deemed to have elected to join in such surrender or abandonment.

If all the Non-Operators elect to join in such surrender or abandonment, such lease(s) or well, as the case may be, shall be surrendered and abandoned and Operator shall endeavor to remove and recover all salvageable materials and equipment on or used in connection with such lease(s) or well.

The foregoing assignment shall transfer and assign all interest in the lease(s) and in the equipment thereon, or, if only in respect of a well, shall transfer and assign all interest in such well, the production therefrom and the equipment therein, and the lease(s) insofar as the same cover oil and oil rights in and under a tract of three hundred twenty (320) acres, similarly located, or in and under such tract as accords with the well spacing pattern in the field if it be different than said 40 acre and 320 acre units respectively.

Against such assignment, the assigning Non-Operator shall be relieved from all obligations thereafter (but not theretofore) accruing under this agreement in respect of the interest assigned.

Section 13. Assignment and Partition: Any Non-Operator may sell, transfer, assign or mortgage all or any part of such Non-Operator's interest in the lease(s) covered hereby. If more than one lease is covered hereby and the selling Non-Operator sells, transfers, assigns or mortgages less than such Non-Operator's entire interest in all the leases covered hereby, the interest so disposed of shall be a uniform undivided interest in all the leases covered hereby. Each sale, transfer or assignment shall be made subject to this agreement, and the purchaser, transferee or assignee shall assume all the obligations of this agreement and shall be responsible for and bear, as a co-owner and Non-Operator hereunder, such party's proportionate part of all costs, expenses and liabilities chargeable and charged to the joint account hereunder.

For the purposes of this provision, the purchaser of interests in the leases at a foreclosure or other sale through court process shall be considered a purchaser, transferee and assignee, but the Trustee under a Mortgage and Deed of Trust shall not be required to assume or undertake such obligations unless and until such Trustee shall have acquired such interests on a sale thereof upon foreclosure.

During the term of this agreement no party hereto shall have the right to partition, by sale or otherwise, the lease(s) covered hereby, or the area covered by such lease(s); provided that a sale, transfer, assignment or mortgage, made subject to this agreement and in accordance with its terms, of all of a party's interest in the lease(s) covered hereby, or of an undivided portion thereof throughout the same, shall not be deemed a partition.

Section 14. Responsibility of Parties: It is the express purpose and intention of the parties hereto that their ownership in the lease(s) covered hereby and in the leased premises shall be as tenants in common and it is not the purpose or intention of this instrument to create, and the same shall never be construed as creating a partnership or other relationship whereby any party hereto shall be held for the acts, either of omission or commission, of any party or parties hereunder.

Section 15. Force Majeure and Regulatory Bodies: If any party hereto is rendered unable, wholly or in part, by force majeure or any other cause of any kind not reasonably within such party's control, to perform or comply with any obligation or provision of this agreement, upon giving notice and reasonably full particulars to the other parties hereto, such obligation or provision shall be suspended during the continuance of the inability so caused, and such party shall be relieved of liability and shall suffer no prejudice for failure to perform the same during such period; provided, the obligation to make payments then due, or which may become due, hereunder shall not be suspended, and the cause of suspension shall be remedied so far as possible with reasonable dispatch.

This agreement shall be subject to and the parties hereto shall comply with all Federal and State Laws, and all valid orders, rules, regulations and directions of any duly constituted authority having jurisdiction in the premises.

Section 16. Title: In the event of loss or failure of title to the lease(s) covered hereby, responsibility of each party hereto interested in such lease(s) shall be several, and not joint, and shall be limited to the production or proceeds accruing to such party's interest therein and the royalties attributable thereto.

Section 17. Term: Subject to the provisions of section numbered 12 hereof, this agreement shall remain in full force and effect for and during the term of the lease covered hereby, or the term of the last of the leases covered hereby, and for the full term of any renewals or extensions of same, whether by production or otherwise.

Section 18. Notices: Any notice, request, demand, statement, bill or other communication provided for in this agreement shall be in writing, and shall be deemed to have been given or delivered on the day mailed if placed in a postpaid envelope and deposited in the United States Mail, first class, directed (until changed by written notice to the others), if addressed to the Operator, as follows:

In case of Operators Pettigrew and Doswell,
718 First National Bank Building
Dallas, Texas; and

Tim G. Lowry,
135 South LaSalle Street
Chicago 3, Illinois;

and, if addressed to any Non-Operator, at the address listed in the opening paragraph hereof, or at such other address as the Non-Operator shall lodge from time to time with the Operators.

Section 19. Arbitration: Any controversy arising hereunder between Operator and Non-Operators, or between Operator and any Non-Operator, or between individual Non-Operators shall be submitted to arbitration by a board of three(3) arbitrators upon

the written request of the party, or parties, requesting arbitration, which request shall name one (1) arbitrator.

The party, or parties, receiving such request shall, within ten (10) days thereafter, by written notice to the other, or others, concerned name the second arbitrator, or failing so to do, the second arbitrator shall be appointed by the judge senior in service of the United States District Court for the Southern District of Texas upon request of the party, or parties, instituting arbitration hereunder.

The two (2) arbitrators so appointed shall name the third, or failing so to do within ten (10) days after appointment of the second arbitrator, the third arbitrator may be appointed by said senior judge upon request of any party to the arbitration.

As regards matters concerning accounts or accounting hereunder, the arbitrators appointed shall be independent certified public accountants who practice oil and gas accountancy.

The arbitrators so appointed shall promptly hear and determine, by the concurrence of at least a majority of them, the matter or matters in dispute, after written notice to the parties concerned of the time and place of the hearing, at which each party shall be entitled to be heard, and shall render their written decision within sixty (60) days after the appointment of the third arbitrator.

If within said period a decision is not rendered by the Board, or a majority thereof, such pending arbitration shall cease and determine without prejudice to the right of any party thereto to proceed anew hereunder for arbitration of the same matter or matters in dispute.

The decision of the arbitrators, or a majority thereof, shall be final and binding upon the parties to the arbitration as to the matter, or matters submitted hereunder for arbitration, and such parties, and each of them, shall abide by and comply with such decision (as to the payment of money awards or otherwise), and judgment may be entered on such decision in any court having jurisdiction.

The expenses of arbitration, including reasonable compensation to the arbitrators, shall be borne or shared as the decision of the arbitrators shall direct.

Section 20. Parties and Successors in Interest: The terms, provisions and conditions of this agreement shall extend to, be binding upon and inure to the benefit of the parties hereto, their heirs, executors, administrators, successors and assigns, whether by operation of law or otherwise, and shall constitute a covenant running with the lands and leasehold estates covered thereby.

Section 21. Execution in Counterparts: It is contemplated that this agreement may be executed in numerous counterparts and that no one copy need have the signatures of all Non-Operators so long as all Non-Operators sign at least one counterpart original that is also signed by the Operator.

Signed, sealed and delivered as of the day and year first above written.

THOMAS W. DOSWELL
TODD M. FETTERMAN and
TIM G. LOWRY, Operators,

By Tim G. Lowry (SEAL)

_____ (SEAL)

STATE OF ILLINOIS)
 : ss
COUNTY OF COOK)

Before me Laura L. Harris, a Notary Public in and for the County and State aforesaid, on this day personally appeared

TIM G. LOWRY

known to me to be one of the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this _____ day of _____, A. D. 19____.

Laura L. Harris
Notary Public, Cook County,

Illinois

My commission expires Jan. 26, 1953

EXHIBIT "A"

SCHEDULE OF LEASEHOLD ESTATE

SE-1/4 of the NW-1/4 and the SW-1/4 of the NE-1/4 and the N-1/2 of the NE-1/4 of Section 20, Township 26 North, Range 6 West, N.M.P.M., containing 160 acres, more or less,

S-1/2 of the SE-1/4, Section 2, Township 26 North, Range 6 West, N.M.P.M., containing 80 acres, more or less, and being a part of the State of New Mexico Oil and Gas Lease No. E-291.

N-1/2 of the N-1/2 of Section 16, Township 26 North, Range 6 West, N.M.P.M., containing 160 acres, more or less, and being a part of the State of New Mexico Oil and Gas Lease No. E-291.

The SW-1/4 of Section 15, and NW-1/4 of Section 22, Township 26 North, Range 6 West, N.M.P.M., containing 320 acres, more or less, and being United States Lease, New Mexico No. 03552.

West 1/2 of Section 34, Township 27 North, Range 6 West, N.M.P.M., containing 320 acres, more or less, and being United States Lease, Santa Fe No. 079210.

subject to royalties, overriding royalties and oil payments aggregating initially 30%.

OPERATING AGREEMENT

This Agreement entered into this 15th day of Nov. 1950, by and between TODD M. MERRIFIELD and THOMAS W. DONNELL, 718 First National Bank Bldg., Dallas, Texas and T. C. LOWRY of Eckert, Peterson & Leaming, 135 So. LaSalle Street, Chicago (3), Illinois (herein at times collectively referred to as "Operator"), as parties of the first part and STANLEY J. TOPP, § Park Motor Sales Company, 15000 Woodward Avenue, Detroit, Michigan, DAVID C. BAIRD, 65 Broadway, New York 6, New York, WILLIAM H. COLVIN, JR., 428 Lexington Avenue, New York 17, New York, WILLIAM P. SNYDER, JR., Henry W. Oliver Bldg., Pittsburgh, Pennsylvania, HENRY SCARBOROUGH, First National Bank Bldg., Chicago, Illinois, L. K. SIDNEY, § M-G-M Studio, Culver City, California, MYRON S. FOX § M-G-M Studio, Culver City, California, LOUIS B. MAYER, Trustee for Suzanne Mayer, § M-G-M Studio, Culver City, California, LORENA MAYER, § M-G-M Studio, Culver City, California, DORIS SCHARY, § M-G-M Studio, Culver City, California, BENJAMIN THAU, § M-G-M Studio, Culver City, California, HOWARD STRICKLING, § M-G-M Studio, Culver City, California, WILLIAM GOETZ, § Universal-International Pictures, Universal City, California.

(herein at times referred to collectively as "Non-Operators" and severally as "Non-Operator"), as parties of the second part,

W I T N E S S E T H

The parties of the second part heretofore have acquired undivided co-ownership interests, in the respective percentages set forth below, in the total leasehold working interests covered by the oil, gas and mineral lease(s) described in the schedule hereto attached, marked "Exhibit A" and by this reference made a part hereof. The parties of the second part may hereafter acquire undivided co-ownership interests, in said respective percentages, in the total leasehold working interests covered by other oil, gas and mineral leases; and any such undivided co-ownership interests hereafter acquired shall hereby be deemed included in the leasehold estate herein referred to with like effect as though the oil, gas and mineral leases to which they relate were described in said "Exhibit A" hereto; and the present or any future Operator is hereby authorized and empowered, in the names and on behalf of the parties of the second part, to execute such supplement to this Agreement as may be necessary or appropriate to confirm the inclusion of such after-acquired interests in the leasehold estate. The sum of such co-ownership interests is at times referred to herein as "the leasehold estate", and the land(s) covered by said leases(s) as "the leased premises."

The aforementioned co-ownership interests now are individually held and owned by the parties of the second part, as follows:

Stanley J. Topp	- 3/8ths.	David C. Baird	- 1/8th
William H. Colvin	- 1/16th.	William P. Snyder, Jr.	- 1/16th
Henry Scarborough	- 1/16th.	L. K. Sidney	- 1/32nd
Myron S. Fox	- 1/32nd.	Louis B. Mayer	- 1/32nd
Lorena Mayer	- 1/32nd.	Doris Schary	- 1/16th
Benjamin Thau	- 1/32nd.	Howard Strickling	- 1/32nd

William Goetz - 1/16th

The parties of the second part have agreed that their respective co-ownership interests aforesaid shall be subject to this agreement, and that the leased premises shall be explored, developed, maintained and operated in accordance with the provisions hereof.

Low, therefore, in consideration of the premises and the mutual agreements herein contained, the parties hereto have agreed as follows:

Section 1. Interests of the Parties: The respective co-ownership interests hereunder individually held and owned by the parties of the second part are as aforesaid. Subject to the provisions of Section 15 hereof, such parties shall own the same respective interests in the oil, gas and other minerals produced from the leased premises, and shall bear and pay in like proportions the costs, expenses and liabilities incurred in the exploration, development, operation and maintenance of said premises, which are properly chargeable to the joint account hereunder.

Section 2. Operator: The Operator hereunder, subject to the terms and provisions of this agreement and the limitations herein stated, shall have exclusive charge and control of the exploration, development, operation, maintenance and management of the leased premises, and of the joint account property and equipment thereon and of all joint account wells thereon. Such Operator shall perform and carry on such duties in accordance with good oil and gas field practices, in the interest of Non-Operators, and as an ordinarily prudent operator, but shall have no responsibility whatever to Non-Operators for errors of judgment. On notice to any Operator hereunder given at any time by Non-Operators owning or holding 65 per cent, or more, of the leasehold estate, or their nominee, such Operator may be removed, and a new Operator appointed by the Non-Operators giving such notice of removal.

So long as Todd M. Pettigrew, Thomas W. Boswell and Tim G. Lowry are the Operators hereunder:

- (a) Operators Pettigrew and Boswell shall have exclusive authority and obligation as authorized hereunder with respect to all field operations and Operator Lowry shall have no responsibility with respect thereto, provided, however, that Pettigrew and Boswell shall not execute any drilling or other contracts relating to the leased premises until the same have been approved by Lowry.
- (b) Operator Lowry shall have exclusive authority and obligation with respect to keeping books of account, making calls upon the Non-Operators for funds and receiving and disbursing the same, provided, however, that Lowry shall make no disbursements for invoices for materials or services until the same have been approved by either Pettigrew or Boswell.
- (c) Pettigrew and Boswell shall be reimbursed by the joint account for his necessary expenses (for which he shall submit monthly statements) but receive nothing for his personal services.
- (d) Lowry shall be reimbursed by the joint account for his necessary expenses and reasonable compensation for his services, for which he shall submit monthly statements.

Section 3. Rentals and Royalties: Rentals and royalties, which may become due and payable under the lease(s) described herein, and in respect of which provision for payment thereof has not otherwise been made, shall be paid by Operator and charged to the joint account. Operator shall exercise diligence in respect of such payments when due, but shall not be liable to Non-Operators for unavoidable or unintentional failure in respect thereof.

No Non-Operator shall be in any way released or relieved from bearing such Non-Operator's proportionate share of rentals and royalties except that should the other Non-Operators, or any of them, agree to pay such non-paying Non-Operator's said share against assignment to the paying Non-Operator or Non-Operators of such non-paying Non-Operator's interest in the leased premises then, on payment by the paying Non-Operator or Non-Operators of such non-paying Non-Operator's said share, such non-paying Non-Operator is hereby released of all obligation in respect thereof.

Section 4. Exploration and Development: When and as Non-Operators owning 51 per cent of the leasehold estate shall notify Operator in writing of the decision of such Non-Operators to drill the initial test well on the leased premises, Operator shall undertake and carry out such operation for the joint account and at the joint expense of all the Non-Operators.

Subject to the immediately preceding paragraph, no well shall be drilled, nor shall any operations for deepening, reworking or recompleting any well in the same or a different horizon be undertaken, by the Operator or any Non-Operator on the leased premises at joint expense or for the joint account, prior to or after the discovery of oil or gas in paying quantities on the leased premises, without the consent in writing of all Non-Operators, except that Operator without consent may drill for the joint account any well on the leased premises required to offset or prevent drainage (herein called an "offset well") by any well located on a lease, which has a common boundary line or corner with the leased premises, or any obligatory well which forms the consideration for the acquisition of the leased premises.

If any Non-Operator, prior to or after the discovery of oil or gas in paying quantities on the leased premises, decides to conduct any drilling, reworking, or recompletion operations, not otherwise hereinbefore provided for, such Non-Operator shall give to all the other Non-Operators written notice of such decision, including the nature and proposed location of the operation, the proposed depth of completion or recompletion, and a detailed estimate of the cost thereof, and shall furnish Operator with a copy of such notice.

If all the other Non-Operators, within 30 days after such notice to them, elect to participate in such operation, the operations proposed shall be undertaken and carried out by Operator for the joint account and at the joint expense of all the Non-Operators. The failure of any Non-Operator to give a notice pursuant to the succeeding paragraph hereof shall be construed as an unconditional election to participate in the operation.

Any Non-Operator, electing, by written notice to Operator within said 30 day period, not to participate in such operation, hereby agrees that the participating Non-Operators hereby become entitled to receive, and, if any action on the part of such non-participating Non-Operator is required in connection

therewith, such non-participating Non-Operator will do and perform such acts and things as shall enable such participating Non-Operators to receive, in respective proportions equivalent to the respective proportions of the total costs, expenses and liabilities borne and paid by each of them in respect of such operation, all production, and proceeds therefrom, accruing to such non-participating Non-Operator's interest in the production from the well in respect to which such non-participation relates, until such participating Non-Operators shall have received from such interest (i) production having a value currently as produced, or proceeds, equivalent in the aggregate to three (3) times an amount equal to the proportionate part of all costs, expenses and liabilities incurred in such operation which would have been borne and paid by such non-participating Non-Operator if such Non-Operator had participated therein, and (ii) such non-participating Non-Operator's pro rata part of the operating and maintenance cost and expenses of such well during the period required to effect payment of the amount such participating Non-Operators are entitled to receive under the above clause (i). If and whenever such participating Non-Operators shall have received such amounts due, such well and all equipment therein shall thereupon be and become a joint account well and property, and such non-participating Non-Operator shall thereafter receive such Non-Operator's interest in production and proceeds from such well and own such Non-Operator's interest in such equipment.

Operator, promptly on receipt thereof, shall furnish the other Non-Operators with copies of any such non-participation notice, and shall undertake and carry out the proposed operation when and as instructed so to do by the participating Non-Operators, and charge their respective accounts proportionately as directed.

Section 5. Marketing of Production: Each Non-Operator at any time and from time to time shall have the right, and each Non-Operator hereunder hereby reserves the right, to take and receive in kind such Non-Operator's aforesaid share of the oil, gas or other hydrocarbons in place or produced and saved from the leased premises, or personally to sell, or direct the sale of, the same for such Non-Operator's benefit. At such times as such Non-Operator does not either take such Non-Operator's aforesaid share of the oil, gas or other hydrocarbons produced and saved from the leased premises in kind, or personally sell, or direct the sale of, same, then Operator is hereby authorized to sell, and shall sell, the same, subject to revocation of such authority at will upon written notice by such Non-Operator to Operator, to a financially responsible purchaser selected by Operator on terms that are, in the opinion of Operator, the most favorable that are obtainable, provided, however, that Operator shall make no contract of sale in respect thereof which will extend for a period of time longer than a reasonable period of time which is consistent with the minimum needs of the industry under the circumstances but which in no event shall exceed one (1) year. Such Non-Operator, upon request of Operator, shall execute and deliver any and all division orders necessary or appropriate for the effectuation of such sales by Operator.

Any Non-Operator, electing to take such Non-Operator's aforesaid share of the oil, gas or other hydrocarbons produced and saved from the leased premises in kind, shall furnish, at the sole expense of such Non-Operator, such facilities as may be necessary to effect division and measurement of, and to receive, the same on or before the date fixed in such Non-Operator's notice to Operator upon which delivery in kind is to be

commenced, and shall bear all extra or else incurred by operator in making such delivery.

The foregoing right in any Non-Operator to take in kind may not be exercised or enjoyed by such Non-Operator if and when such Non-Operator is or becomes in default in respect of any payments or amounts owed by such Non-Operator under this agreement, and when and while such default exists Operator may decline or cease making deliveries to or for the account of such Non-Operator of such Non-Operator's aforesaid share of the production in question.

Should any Non-Operator, exercising such right to take in kind, fail to furnish facilities, or not take delivery on the date fixed in the above notice to Operator, then such notice shall be void and of no effect.

Section 6. Contracts and Services: All wells drilled on the leased premises for the joint account, including all facilities and installations for storing, handling and transporting production in connection with producing, saving and marketing the same, shall be drilled or installed on a competitive contract basis, or at prices and upon terms approved by Operator and all of the Non-Operators. If any Non-Operator shall not state in writing to Operator within (10) ten days such Non-Operator's disapproval of prices or terms stated to such Non-Operator by Operator for such operations or installations, respectively, (when not on a competitive contract basis,) it shall be conclusively presumed that such Non-Operator approved the same.

If Operator undertakes to perform any such work or services for the joint account or furnishes any of Operator's facilities in connection therewith, Operator shall perform such work and services as an independent contractor and for a consideration and upon the same terms generally prevailing for like work and services in the area, and shall furnish such facilities on the basis of their reasonable rental value.

Section 7. Accounting, Billing, Payment and Advances: Operator shall incur for and charge to the joint account of all the Non-Operators interested in the leased premises, as authorized hereunder, all costs, expenses and liabilities incident to drilling, testing, equipping, completing, abandoning and salvaging material from, the joint account wells drilled on the leased premises, or incurred in connection with reworking, deepening or re-completing operations, or in acquiring, erecting and installing all property, structures, gathering lines, tanks, treating, measuring and other facilities and equipment necessary to operate and maintain such wells and carry on such operations and to produce, save and market the production therefrom by delivery to the purchaser in the field or from the lease tanks wherever situated. Operator shall also charge to such joint account all other costs, expenses and liabilities authorized to be incurred hereunder in connection with the leased premises or the leasehold interests. (Such charges to the joint account and matters relating to the accounting procedure between Operator and Non-Operators shall be governed by the provisions hereof and of the Accounting Procedure hereto attached, marked "Exhibit B", and by this reference made a part hereof; and, except as otherwise provided herein, billing by Operator and payment by Non-Operators shall also be governed by the applicable provisions of said Exhibit B.)

Except with respect to costs, expenses and liabilities authorized to be incurred hereunder as provided in the fore-

going paragraph and in other sections hereof, Operator shall not incur for or charge to the joint account costs, expenses or liabilities in connection with any single project, or item of capital investment, in excess of Five Thousand (\$5,000.00) Dollars, without the written consent of each Non-Operator first obtained. If, however, a project or investment is so approved, Operator may incur and charge to the joint account all costs, expenses and liability incident to such project, investment or operation without further approval being required.

Out of the collections from Non-Operators hereunder, Operator shall pay all costs, expenses and liabilities incurred for the joint account.

Operator may at any time and from time to time require each Non-Operator to pay in advance such Non-Operator's proportionate part of estimated expenditures hereunder for costs, expenses and liabilities incurred in connection with operations on, and construction of facilities and acquisition of equipment for or used in operating, the leased premises for the joint account, by making written request for such advance payment (stating the date the expenditure is to be made, such request to be made at least twenty (20) days prior to such stated expenditure date.) Each Non-Operator hereby agrees to pay to Operator the amount requested at least five (5) days before the date the expenditure is to be made, and if such payment is not so made the amount thereof, or any unpaid balance, shall bear and such Non-Operator shall pay, interest at the rate of six (6%) per cent per annum until paid. Adjustments between estimates and actual expenditures shall be made by Operator and the respective accounts shall be adjusted accordingly monthly.

Section 8. Inspection of Records and Operations: Each Non-Operator, and such Non-Operator's representatives, shall have the right at all reasonable times to inspect and audit Operator's books, records and invoices pertaining to any matter of accounting or otherwise in respect of the leased premises or the joint account.

Each Non-Operator, and such Non-Operator's representatives, shall, at such Non-Operator's and their risk, be entitled to access to the leased premises and all property held or used in connection therewith, to the wells which are being drilled, reworked or produced thereon and to the logs and drilling, production and other records pertaining thereto. Each non-Operator shall also have the right to receive, delivered to such Non-Operator's representative at the well, samples of all cores and cuttings of sufficient size to be of laboratory value, and copies of all Schlumberger and other electrical logs, and of reports on any and all tests run on any wells.

Section 9. Insurance: Operator at all times during the drilling and/or operation of the leased premises shall carry and maintain in effect the following insurance applicable to all operations conducted under this agreement, except to the extent that, upon recommendation of the Operator, all Non-Operators shall approve the elimination or modification of any such insurance:

1. Workmen's Compensation under the laws of the State of
2. Public Liability and Property Damage, with limits of not less than \$100,000/\$200,000 and \$100,000.
3. Automobile Liability Insurance, with limits of \$100,000/

\$200,000, and Automobile Property Damage Insurance, with limit of \$10,000.

4. Owner's Contingent or Protective Liability, with limits of not less than \$25,000/50,000.
5. Fire Insurance on the actual value of the installations and personal property subject to fire loss.
6. Hirdstorn, Tornado, etc., with limits of the actual value of the installations and personal property subject to the joint account.

All other insurance purchased shall be subject to the prior approval of Non-Operators. Operator shall submit to a named nominee of Non-Operators certificates of insurance in evidence of the above coverage. Such certificates shall specify that in event of cancellation or material change in coverage, at least ten (10) days' prior notice will be given said nominee of Non-Operators.

Section 10. Taxes: Unless otherwise arranged, each Non-Operator shall render for taxation such Non-Operator's interest in the lease(s) and pay such Non-Operator's own taxes, and Operator shall have no responsibility with respect thereto. Operator shall, however, pay and charge to the joint account all production, severance, gathering and other like taxes.

Section 11. Lien: Operator shall have, and hereby is expressly granted, a lien upon the interests of each Non-Operator in the lease(s) hereof, and in the wells, equipment, production, proceeds from production and other property relating to or used in connection with the operations on the leased premises, to secure to Operator all sums which may become due and owing by such Non-Operator under this agreement. Such Lien may be enforced by Operator in the same manner as any other Mortgage lien, and such remedy, as well as any other right and remedy of Operator hereunder, shall be in addition to, and not in limitation of, all other rights and remedies which Operator may have or enjoy under the terms hereof or otherwise, at law or in equity.

As further security for the sums which may become due and owing hereunder to Operator, each Non-Operator hereby transfers and assigns to Operator such Non-Operator's interest in the oil, gas and other hydro-carbons produced from the leased premises and the proceeds accruing to such interest.

No purchaser or other person, firm or corporation purchasing, storing, handling, transporting or otherwise dealing with the production from the leased premises shall be required to take notice of, or incur, any liability to Operator on account of such Lien or the assignment of production and proceeds herein made, unless and until Operator shall have given notice in writing to such purchaser or other person, firm or corporation asserting that a Non-Operator interested in the leased premises has failed to pay the amounts due by such Non-Operator hereunder. Upon receipt of such notice, such purchaser or other person, firm or corporation shall be authorized to pay over to Operator the proceeds due and payable on the interest of the Non-Operator named in such Notice in production from the leased premises, without obligation to look to the application thereof by such Operator, and the receipt of Operator shall be full acquittance and discharge of the amounts so paid.

Section 12. Surrender and Abandonment of Leases and Wells: If any Non-Operator determines to surrender or abandon the lease(s) covered hereby, or any of them, or any producing well which has ceased to produce, or in such Non-Operator's opinion is not producing in paying quantities, such Non-Operator shall notify in writing all the other Non-Operators of such decision. Each Non-Operator receiving such notice shall have fifteen (15) days within which to elect by notice in writing delivered to the Non-Operator giving notice of surrender or abandonment whether such Non-Operator will join therein or will accept assignment of such lease(s) or take over such well. If all the other Non-Operators desire to accept such assignment they shall acquire respective interests in the interest assigned proportionate to their aforesaid respective co-ownership interests in the leasehold estate. If the accepting Non-Operators be less than all of the other Non-Operators, they shall acquire equal proportions in the interest assigned, unless otherwise agreed between them. If any Non-Operator receiving notice of surrender or abandonment fails so to notify the Non-Operator giving such notice, such Non-Operator shall be conclusively deemed to have elected to join in such surrender or abandonment.

If all the Non-Operators elect to join in such surrender or abandonment, such lease(s) or well, as the case may be, shall be surrendered and abandoned, and Operator shall endeavor to remove and recover all salvageable materials and equipment on or used in connection with such lease(s) or well.

The foregoing assignment shall transfer and assign all interest in the lease(s) and in the equipment thereon, or, if only in respect of a well, shall transfer and assign all interest in such well, the production therefrom and the equipment therein, and the lease(s) insofar as the same cover oil and oil rights in and under a tract of forty (40) acres around the well, and gas and gas rights in and under a tract of three hundred twenty (320) acres, similarly located, or in and under such tract as accords with the well spacing pattern in the field if it be different than said 40 acre and 320 acre units respectively.

Against such assignment, the assigning Non-Operator shall be relieved from all obligations thereafter (but not theretofore) accruing under this agreement in respect of the interest assigned.

Section 13. Assignment and Partition: Any Non-Operator may sell, transfer, assign or mortgage all or any part of such Non-Operator's interest in the lease(s) covered hereby. If more than one lease is covered hereby and the selling Non-Operator sells, transfers, assigns or mortgages less than such Non-Operator's entire interest in all the leases covered hereby, the interest so disposed of shall be a uniform undivided interest in all the leases covered hereby. Each sale, transfer or assignment shall be made subject to this agreement, and the purchaser, transferee or assignee shall assume all the obligations of this agreement and shall be responsible for and bear, as a co-owner and Non-Operator hereunder, such party's proportionate part of all costs, expenses and liabilities emergent and charged to the joint account hereunder.

For the purposes of this provision, the purchaser of interests in the leases at a foreclosure or other sale through court process shall be considered a purchaser, transferee and assignee, but the Trustee under a Mortgage and Deed of Trust

shall not be required to assume or undertake such obligations unless and until such Trustee shall have acquired such interests on a sale thereof upon foreclosure.

During the term of this agreement no party hereto shall have the right to partition, by sale or otherwise, the lease(s) covered hereby, or the area covered by such lease(s); provided that a sale, transfer, assignment or mortgage, made subject to this agreement and in accordance with its terms, of all of a party's interest in the lease(s) covered hereby, or of an undivided portion thereof throughout the same, shall not be deemed a partition.

Section 14. Responsibility of Parties: It is the express purpose and intention of the parties hereto that their ownership in the lease(s) covered hereby and in the leased premises shall be as tenants in common and it is not the purpose or intention of this instrument to create, and the same shall never be construed as creating a partnership or other relationship whereby any party hereto shall be held for the acts, either of omission or commission, of any party or parties hereunder.

Section 15. Force Majeure and Regulatory Action: If any party hereto is rendered unable, wholly or in part, by force majeure or any other cause of any kind not reasonably within such party's control, to perform or comply with any obligation or provision of this agreement, upon giving notice and reasonably full particulars to the other parties hereto, such obligation or provision shall be suspended during the continuance of the inability so caused, and such party shall be relieved of liability and shall suffer no prejudice for failure to perform the same during such period; provided, the obligation to make payments then due, or which may become due, hereunder shall not be suspended, and the cause of suspension shall be remedied so far as possible with reasonable dispatch.

This agreement shall be subject to and the parties hereto shall comply with all Federal and State laws, and all valid orders, rules, regulations and directions of any duly constituted authority having jurisdiction in the premises.

Section 16. Title: In the event of loss or failure of title to the lease(s) covered hereby, responsibility of each party hereto interested in such lease(s) shall be several, and not joint, and shall be limited to the production or proceeds accruing to such party's interest therein and the royalties attributable thereto.

Section 17. Term: Subject to the provisions of section numbered 12 hereof, this agreement shall remain in full force and effect for and during the term of the lease covered hereby, or the term of the last of the leases covered hereby, and for the full term of any renewals or extensions of same, whether by production or otherwise.

Section 18. Notices: Any notice, request, demand, statement, bill or other communication provided for in this agreement shall be in writing, and shall be deemed to have been given or delivered on the day mailed if placed in a postpaid envelope and deposited in the United States Mail, first class, directed (until changed by written notice to the others), if addressed to the Operator, as follows:

In case of Operators Lottigrew and Boswell,
718 First National Bank Building
Dallas, Texas; and

Tim G. Lowry, 135
135 South LaSalle Street
Chicago 3, Illinois;

and, if addressed to any Non-Operator, at the address listed in the opening paragraph hereof, or at such other address as the Non-Operator shall lodge from time to time with the Operators.

Section 19. Arbitration: Any controversy arising hereunder between Operator and Non-Operators, or between Operator and any Non-Operator, or between individual Non-Operators shall be submitted to arbitration by a board of three (3) arbitrators upon the written request of the party, or parties, requesting arbitration, which request shall name one (1) arbitrator.

The party, or parties, receiving such request shall, within ten (10) days thereafter, by written notice to the other, or others, concerned name the second arbitrator, or failing so to do, the second arbitrator shall be appointed by the judge senior in service of the United States District Court for the Southern District of Texas upon request of the party, or parties, instituting arbitration hereunder.

The two (2) arbitrators so appointed shall name the third, or failing so to do within ten (10) days after appointment of the second arbitrator, the third arbitrator may be appointed by said senior judge upon request of any party to the arbitration.

As regards matters concerning accounts or accounting hereunder, the arbitrators appointed shall be independent certified public accountants who practice oil and gas accountancy.

The arbitrators so appointed shall promptly hear and determine, by the concurrence of at least a majority of them, the matter or matters in dispute, after written notice to the parties concerned of the time and place of the hearing, at which each party shall be entitled to be heard, and shall render their written decision within sixty (60) days after the appointment of the third arbitrator.

If within said period a decision is not rendered by the Board, or a majority thereof, such pending arbitration shall cease and determine without prejudice to the right of any party thereto to proceed anew hereunder for arbitration of the same matter or matters in dispute.

The decision of the arbitrators, or of a majority thereof, shall be final and binding upon the parties to the arbitration as to the matter, or matters, submitted hereunder for arbitration, and such parties, and each of them, shall abide by and comply with such decision (as to the payment of money awards or other fee), and judgment may be entered on such decision in any court having jurisdiction.

The expenses of arbitration, including reasonable compensation to the arbitrators, shall be borne or shared as the decision of the arbitrators shall direct.

Section 20. Parties and Successors in Interest: The terms, provisions and conditions of this agreement shall extend to, be binding upon and inure to the benefit of, the parties hereto, their heirs, executors, administrators, successors and assigns, whether by operation of law or otherwise, and shall constitute a covenant running with the lands and leasehold estates covered thereby.

Section 21. Execution in Counterparts:

It is contemplated that this agreement may be executed in numerous counterparts and that no one copy need have the signatures of all Non-Operators so long as all Non-Operators sign at least one counterpart original that is also signed by the Operator.

Signed, sealed and delivered as of the day and year first above written.

THOMAS W. DEWEY
RODNEY W. BENTLEY and
TIM C. LORRY, Operators,

By _____ (SEAL)

_____ (SEAL)

STATE OF
COUNTY OF

Before me _____ a notary
public in and for the County and State aforesaid, on this day
personally appeared _____
known to me to be one of the persons whose names are subscribed
to the foregoing instrument, and acknowledged to me that he
executed the same for the purposes and consideration therein
expressed.

Given under my hand and seal of office this _____
day of _____ A.D. 19 _____.

Notary Public, _____ County,

My commission expires _____

EXHIBIT "A"

SCHEDULE OF UNPAID STATE

Oil and gas lease No. K-291 from the State of New Mexico to Levi A. Hughes dated May 3, 1945, in so far as said lease covers the following land in Rio Arriba County, New Mexico:

	<u>Sec.</u>	<u>Twp.</u>	<u>Range</u>	<u>Acres</u>
SW-1/4	16	26N	6W	160
SW-1/4	2	26N	6W	160
N-1/2 and N-1/2 of SW-1/4	2	26N	6W	400
S-1/2 of N-1/2 and SW-1/4	16	26N	6W	<u>320</u>
				<u>1040</u>

subject to overriding royalty of five per cent (5%).

APPOINTMENT OF OPERATORS

Whereas under the terms of that certain Operating Agreement dated March 15, 1951, between Todd M. Pettigrew and Thomas W. Doswell, and Tim G. Lowry, as Operators, designated collectively as "Operator", and Charles F. Reuter & Co., Sylvester W. Muldowney, David G. Baird, Theodore S. Watson, Philip Nash, William H. Colvin, Henry Scarborough, and Eric S. Morse, as Non-Operators, it is provided that the Non-Operators holding or owning sixty five per cent (65%) or more of the leasehold estate covered by said Operating Agreement may remove the Operator and designate a new Operator, and

Whereas THOMAS W. DOSWELL died on August 20, 1951 and the Non-Operators wish to designate a new Operator, and

Whereas the leasehold estate covered by said Operating Agreement is now owned or held by the following persons in the indicated proportions:

Charles F. Reuter & Co.,	37/64ths
Sylvester W. Muldowney	6/64ths
David G. Baird	4/64ths
Theodore S. Watson	4/64ths
Philip Nash	4/64ths
William H. Colvin	4/64ths
Henry Scarborough	4/64ths
Eric S. Morse	1/64th

Now, therefore, notice is hereby given pursuant to Section 2 of said Operating Agreement of the appointment of Todd M. Pettigrew and Tim G. Lowry as "Operator" under said agreement, upon the following conditions:

- (a) Operator Lowry shall have exclusive authority and obligation with respect to keeping books of account, making calls upon the Non-Operators for funds and receiving and disbursing the same.
- (b) Pettigrew shall be reimbursed by the joint account for his necessary expenses (for which he shall submit monthly statements) but receive nothing for his personal services.
- (c) Lowry shall be reimbursed by the joint account for his necessary expenses and reasonable compensation for his services, for which he shall submit monthly statements.
- (d) This instrument shall be effective when a counterpart original of this instrument shall have been signed and deposited with Tim G. Lowry by Non-Operators owning sixty five per cent (65%) or more of said leasehold estate and accepted by said Pettigrew and Lowry.

In Witness Whereof, this instrument is executed as of August 21, 1951.

Charles F. Reuter & Co. (SEAL)

Sylvester W. Muldowney (SEAL)

David G. Baird (SEAL)

Theodore S. Watson (SEAL)

Phillip Nash (SEAL)

William H. Colvin (SEAL)

Henry Scarborough (SEAL)

Eric S. Morse (SEAL)

We hereby accept the foregoing appointment.

Todd M. Pettigrew (SEAL)

Tim G. Lowry (SEAL)

Case 465

NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

APPLICATION FOR APPROVAL
OF PICTURED CLIFFS UNIT
NO. 2 ACRES UNIT, RIO
ARRIBA COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission
Santa Fe, New Mexico.

COMES the undersigned, Lowry et al Operating Account, with offices at 616 Central Avenue East, Albuquerque, New Mexico, by its attorney, Jason W. Kellahin, P. O. Box 361, Santa Fe, New Mexico, and files herewith three copies of a proposed Unit Agreement for the development and operation of the Pictured Cliffs Unit No. 2 unit area, embracing land situated in Rio Arriba County, New Mexico, and hereby makes application for the approval of said Unit Agreement, and in support thereof shows:

1.

That the unit area designated in said agreement comprises 100 acres situated in Rio Arriba County, New Mexico, more particularly described as follows:

Twp. 26 N., R. 6 W., N.M.P.M.
Sec. 16 : NW $\frac{1}{4}$

That all of the above described lands are owned by the State of New Mexico upon which the applicant and others are owners of oil and gas leases issued by the Commissioner of Public Lands of the State of New Mexico, and consist of parts of State Lease E-291 which has been segregated by assignment, insofar as above unit is concerned, as follows:

E-291-25, being the NE $\frac{1}{4}$ and
E-291-17, being the SE $\frac{1}{4}$ all
being in Sec. 16, Twp. 26 N. R. 6 W.

2.

That there is attached hereto, made a part hereof, and for the purposes of identification marked Exhibit "A", a plat

indicating the producing Pictured Cliffs Gas Wells which have been completed in Sec. 2, Lease E-291-17 and in Sec. 16, Leases E-291-17 and E-291-25. That on said plat is indicated geological information and because of this geological information applicant believes that the above described area is an area suitable and proper for unitization.

3.

That Tim G. Lowry and Todd W. Pettigrew are designated as the Unit Operator in said agreement and the Unit Operator is given authority under the terms thereof to carry on all operations which are necessary for the development of the Unit Areas for oil and gas subject to all applicable laws and regulations. That pursuant to said Unit Agreement applicant is requesting approval of a unit of 160 acres as a Gas Operating Unit, insofar, but only insofar as production from the Pictured Cliffs formation is concerned, said unit being in full compliance with well spacing and acreage requirements of the New Mexico Oil Conservation Commission.

4.

That there is attached hereto, made a part hereof, and for purposes of identification marked Exhibit "B", a copy of executed Unit Agreement wherein all owners of leasehold interests have committed their interests to the agreement..

That said Unit Agreement is in substantially the same form as Unit Agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico and by the New Mexico Oil Conservation Commission, and it is believed that operations to be carried on under the terms thereof will promote the economical and efficient recovery of oil and gas to the end that the maximum yield may be obtained from the field or area. Production is to be limited to such production as may be put to beneficial use with adequate realization of fuel and other values, and it is further believed

that the Agreement will be in the interest of the conservation of oil and gas and the prevention of waste as contemplated by the Oil Conservation Statutes of the State of New Mexico.

5.

That upon an order being entered by the New Mexico Oil Conservation Commission approving the said Unit Agreement, and after approval thereof by the Commissioner of Public Lands of the State of New Mexico, a fully executed and approved copy of said agreement will be filed with the New Mexico Oil Conservation Commission.

WHEREFORE, the Undersigned applicant respectfully requests that a public hearing be held on the matter of the approval of said Unit Agreement as provided by the Statutes of the State of New Mexico, and the regulations of the New Mexico Oil Conservation Commission, and that upon said hearing said Unit Agreement be approved by the New Mexico Oil Conservation Commission.

Respectfully submitted,

LOWRY et al OPERATING ACCOUNT

By Jason W. Kellahin
Jason W. Kellahin, Attorney

Case 465

NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

APPLICATION FOR APPROVAL
OF PICTURED CLIFFS UNIT
NO. 2 AGREEMENT, RIO
ARRIBA COUNTY, NEW MEXICO

New Mexico Oil Conservation Commission
Santa Fe, New Mexico.

COMES the undersigned, Lowry et al Operating Account, with offices at 616 Central Avenue East, Albuquerque, New Mexico, by its attorney, Jason W. Kellahin, P. O. Box 361, Santa Fe, New Mexico, and files herewith three copies of a proposed Unit Agreement for the development and operation of the Pictured Cliffs Unit No. 2 unit area, embracing land situated in Rio Arriba County, New Mexico, and hereby makes application for the approval of said Unit Agreement, and in support thereof shows:

1.

That the unit area designated in said agreement comprises 160 acres situated in Rio Arriba County, New Mexico, more particularly described as follows:

Twp. 26 N., R. 6 W., N.M.P.M.
Sec. 16 : NW $\frac{1}{4}$

That all of the above described lands are owned by the State of New Mexico upon which the applicant and others are owners of oil and gas leases issued by the Commissioner of Public Lands of the State of New Mexico, and consist of parts of State Lease E-291 which has been segregated by assignment, insofar as above unit is concerned, as follows:

E-291-25, being the N $\frac{1}{2}$ N $\frac{1}{2}$ and
E-291-17, being the S $\frac{1}{2}$ N $\frac{1}{2}$ all
being in Sec. 16, Twp. 26 N. R. 6 W.

2.

That there is attached hereto, made a part hereof, and for the purposes of identification marked Exhibit "A", a plat

indicating the producing Pictured Cliffs Gas Wells which have been completed in Sec. 2, Lease E-291-17 and in Sec. 16, Leases E-291-17 and E-291-25. That on said plat is indicated geological information and because of this geological information applicant believes that the above described area is an area suitable and proper for unitization.

3.

That Tim G. Lowry and Todd M. Pettigrew are designated as the Unit Operator in said agreement and the Unit Operator is given authority under the terms thereof to carry on all operations which are necessary for the development of the Unit Areas for oil and gas subject to all applicable laws and regulations. That pursuant to said Unit Agreement applicant is requesting approval of a unit of 160 acres as a Gas Operating Unit, insofar, but only insofar as production from the Pictured Cliffs formation is concerned, said unit being in full compliance with well spacing and acreage requirements of the New Mexico Oil Conservation Commission.

4.

That there is attached hereto, made a part hereof, and for purposes of identification marked Exhibit "B", a copy of executed Unit Agreement wherein all owners of leasehold interests have committed their interests to the agreement..

That said Unit Agreement is in substantially the same form as Unit Agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico and by the New Mexico Oil Conservation Commission, and it is believed that operations to be carried on under the terms thereof will promote the economical and efficient recovery of oil and gas to the end that the maximum yield may be obtained from the field or area. Production is to be limited to such production as may be put to beneficial use with adequate realization of fuel and other values, and it is further believed

that the Agreement will be in the interest of the conservation of oil and gas and the prevention of waste as contemplated by the Oil Conservation Statutes of the State of New Mexico.

5.

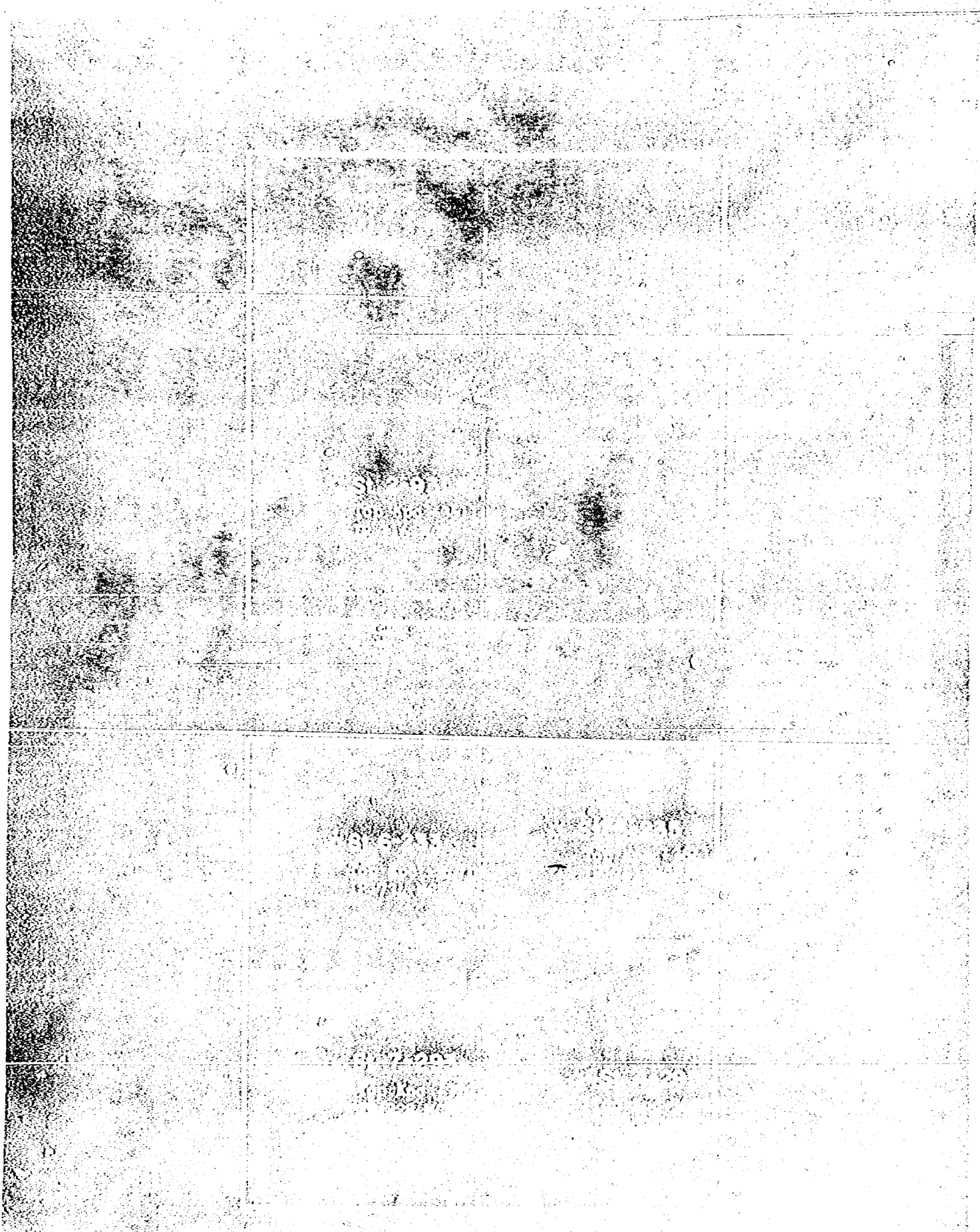
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WHEREFORE, the Undersigned applicant respectfully requests that a public hearing be held on the matter of the approval of said Unit Agreement as provided by the Statutes of the State of New Mexico, and the regulations of the New Mexico Oil Conservation Commission, and that upon said hearing said Unit Agreement be approved by the New Mexico Oil Conservation Commission.

Respectfully submitted,

LOWRY et al OPERATING ACCOUNT

By Jason W. Kellahin
Jason W. Kellahin, Attorney



[The page contains several paragraphs of extremely faint, illegible text, likely bleed-through from the reverse side of the document. The text is too light to transcribe accurately.]

113
benefit
11001

THE STATE OF TEXAS, COUNTY OF [illegible]

BEFORE ME, the undersigned authority, on this [illegible] day of [illegible] 19[illegible], personally appeared [illegible], known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this [illegible] day of [illegible] 19[illegible].

My commission expires this [illegible] day of [illegible] 19[illegible].

Notary Public in and for the State of Texas

[illegible signature]

...the ... of ...

...The ... of ...

...shall ... remain in effect so long as ...

...of ...

...have caused this ...

[Handwritten signatures and text]

...the term "unutilized" shall be defined as the amount of unutilized substances which shall be defined as such to be the amount of substances which are not being used for beneficial use with a view to the production of oil and gas values.

COVENANTS RUN WITH LAND

8. The covenants herein shall be considered to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement, its rates and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the transferee, or other successor in interest.

EFFECTIVE DATE AND TERM

9. This agreement shall become effective when signed by all parties listed on Schedule C and shall remain in effect so long as unutilized substances can be produced from the unutilized land in paying quantities, provided, however, this agreement may be terminated at any time by not less than 7/8 ton an acreage basis of unutilized working interests in any one area.

COUNTERPARTS

10. This agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document, or this agreement may be executed in one or more counterparts and effect by a separate instrument in which the parties have agreed hereto.

In witness whereof, the parties hereto have caused this agreement to be signed and have hereunto set their hands and names the date first above written.

[Handwritten signatures and names of the parties]

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that this is essential for the proper management of the organization's finances and for ensuring compliance with applicable laws and regulations.

2. The second part of the document outlines the specific procedures that must be followed when recording transactions. This includes the requirement that all entries be supported by appropriate documentation, such as invoices, receipts, and contracts.

3. The third part of the document addresses the issue of internal controls. It states that a robust system of internal controls is necessary to prevent errors and fraud, and to ensure the integrity of the financial reporting process.

4. The fourth part of the document discusses the role of the accounting department in providing timely and accurate financial information to management. It highlights the importance of regular communication and reporting to support informed decision-making.

5. The fifth part of the document concludes by reiterating the organization's commitment to transparency and accountability in its financial operations. It expresses confidence that the implemented procedures will ensure the highest standards of financial management.