

OPERATING AGREEMENT

This Agreement made and entered into this 1st day of March, 1956, by and between AMERADA PETROLEUM CORPORATION, hereinafter called "AMERADA" or "OPERATOR", and GULF OIL CORPORATION, hereinafter called "GULF" or "NON-OPERATOR",

WITNESSETH, that

WHEREAS, AMERADA is the owner of the following valid and existing oil and/or gas leases covering lands in Lea County, New Mexico:

14-677
3
Lease dated July 2, 1932, executed by J. L. Selby and Carrie E. Selby, wife, individually, and Selby Oil & Gas Corporation, Lessors, to H. Dillard Schenck, Lessee, covering the SW/4 SE/4, and other lands, of Section 26-19S-36E, recorded in Book 24, at Page 149, of the records of said county;

677-F
1363
Lease dated July 2, 1932, executed by William B. Maveety, Lessor, to H. Dillard Schenck, Lessee, covering the SW/4 SE/4, and other lands, of Section 26-19S-36E, recorded Book 24, at Page 147 of the records of said county;

677-D
Lease dated July 2, 1932, executed by Willie A. Weir, Lessor, to H. Dillard Schenck, Lessee, covering the SW/4 SE/4, and other lands, of Section 26-19S-36E, recorded in Book 24, at Page 145 of the records of said county;

1555
Lease dated June 15, 1955, executed by Peerless Oil and Gas Company, Lessor, to Amerada Petroleum Corporation, Lessee, covering the NE/4 SE/4 of Section 26-19S-36E, recorded in Book 128, at Page 440 of the records of said county;

1555-A
Lease dated May 16, 1955, executed by Commonwealth Royalties, Inc., Lessor, to Amerada Petroleum Corporation, Lessee, covering the NE/4 SE/4 of Section 26-19S-36E, recorded in Book 128, Page 443 of the records of said county;

1555-B
Lease dated May 4, 1955, executed by Catherine L. Dumraese, Lessor, to Amerada Petroleum Corporation, Lessee, covering the NE/4 SE/4 of Section 26-19S-36E, recorded in Book 128, Page 446 of the records of said county;

1555-C
Lease dated April 28, 1955, executed by Docia Bates and Charles T. Bates, husband, et al, Lessors, to Amerada Petroleum Corporation, Lessee, covering the NE/4 SE/4 of Section 26-19S-36E, recorded in Book 128, Page 449 of the records of said county.

WHEREAS, GULF is the owner of the following valid and existing oil and gas leases covering lands in Lea County, New Mexico:

Lease dated June 10, 1927, executed by Willie A. Weir, Lessor, to C. E. Reynolds, Lessee, covering the NW/4 SE/4, and other lands, of Section 26-19S-36E;

Lease dated July 1, 1927, executed by Charles T. Bates and Docia Bates, his wife, et al., Lessors, to J. W. Brown, Lessee, covering the SE/4 SE/4 of Section 26-19S-36E.

WHEREAS, the parties hereto have made and entered into a Gas Pooling Agreement of even date herewith pooling their respective interests in the dry gas and associated liquid hydrocarbons in and under and that may be produced from the SE/4 of Section 26, Township 19 South, Range 36 East, N.M.P.M., Lea County, New Mexico from gas wells within the vertical limits of the Eumont Gas Pool; and

WHEREAS, AMERADA has heretofore completed an oil well within the surface boundaries of said unit, known as its W. A. Weir Well No. 7, located in the SW/4 SE/4 of said section and has agreed to recomplete said well as a gas well in the Eumont Gas Pool, Lea County, New Mexico, or AMERADA may at its option elect to drill a new gas well in the Eumont Gas Pool, Lea County, New Mexico, said well to be referred to hereinafter as the "Unit Well", and

WHEREAS, the parties hereto desire to enter into an agreement for the designation of an operator for participation in production, and for compensation to AMERADA for the cost of the above-described unit well and the operation thereof,

NOW, THEREFORE, for and in consideration of the premises and the mutual promises and advantages contained herein, the parties hereto agree as follows:

1.

The "Unit" as referred to herein, shall be the gas proration unit consisting of the SE/4 of Section 26, Township 19 South, Range 36 East, within the vertical limits of the Eumont Gas Pool, it being the intention of the parties hereto that this agreement shall apply to dry gas and associated liquid hydrocarbons produced and capable of being produced from a gas well as defined by the Oil Conservation Commission of New Mexico and situated upon the Unit, and that this agreement shall not include or affect in any manner whatsoever any of the production of hydrocarbons from any oil well located on the Unit or any of the production of hydrocarbons from other than the Eumont Gas Pool as defined by the Oil Conservation Commission of New Mexico.

2.

AMERADA shall be the Operator of the Unit and as such will perform all of GULF'S obligations, express or implied, under GULF'S oil and gas leases (except payment of rentals, royalties or overriding royalties as hereinafter provided) insofar only as said obligations apply to production within the Unit; will comply with all applicable and valid laws, rules and regulations of any regulatory body having jurisdiction, this agreement being specifically made subject to any such valid laws, rules and regulations; and will prepare and file all reports and forms of any kind required by the Oil Conservation Commission of the State of New Mexico or any other regulatory body or agency, Federal or State, and furnish copies of such forms and reports to GULF.

3.

In consideration of the services performed and to be performed by Operator in developing and operating the Unit, Operator in addition to all of the proceeds of production attributable to the tracts owned by it in the Unit, shall be entitled to receive and Non-Operator agrees to pay to Operator 7/8ths of the proceeds of all dry gas and associated liquid hydrocarbons produced and marketed from the Unit insofar as said production is attributable to the tracts of Non-Operator until Operator has received from such proceeds the sum of \$7,000.00. When such sum has been received by Operator, then Operator shall be entitled to receive and Non-Operator agrees to pay to Operator 1/4th of 7/8ths of the proceeds of all dry gas and associated liquid hydrocarbons produced and marketed from the Unit insofar as said production is attributable to the tracts of Non-Operator. The sum of \$7,000.00 and the proceeds of 1/4th of 7/8ths of the dry gas and associated liquid hydrocarbons produced and marketed from the Unit attributable to the tracts of Non-Operator as hereinabove provided shall be a net amount to Operator and shall not be chargeable with any taxes levied upon the production or upon the leasehold interest out of which it is payable.

Non-Operator shall not be entitled to retain any of the said 7/8ths of the proceeds of the sale of dry gas and associated liquid hydrocarbons produced and marketed from the Unit until the said sum of \$7,000.00 shall have been received by Operator, and thereafter Non-Operator shall be entitled to retain the proceeds of the sale of dry gas and associated liquid hydrocarbons produced and marketed from the Unit insofar as said production is attributable to the tracts of Non-Operator less 1/4th of 7/8ths as above provided. Such interest of Non-

Operator shall be free and clear of all development and operating cost except the taxes levied upon or against or measured by the production of dry gas and associated liquid hydrocarbons allocated to the tracts owned by Non-Operator within the Unit, including the ad valorem tax based upon the value of production provided by Sections 72-11-1 to 72-11-6, New Mexico Statutes, 1953, Annotated.

Operator shall have the right to utilize such gas as may be necessary in the development and operation of the unit covered by this agreement.

It is understood and agreed that by the payment of the sum of \$7,000.00 as above provided Non-Operator shall not become the owner of any interest in any unit well or well equipment.

Operator shall have a lien upon the interests of Non-Operator subject to this agreement, the gas produced therefrom, the proceeds thereof and therein, to secure Operator in the payment of any sum due Operator hereunder from Non-Operator; provided, however, that such lien shall not extend to any royalty rights attributable to any interests subjected hereto.

Operator agrees to render and pay all taxes upon the leasehold equipment and other personal property owned by it and used in connection with or in developing the Unit.

Operator shall make such reports as may be required and shall pay such ad valorem taxes as may be due under existing laws or under laws which may be enacted during the term of this Agreement imposing such ad valorem taxes upon the leasehold interest under the pooled proration unit. Operator shall bill Non-Operator for its proportionate share of such tax payments and Non-Operator agrees upon receipt of proof of payment to promptly reimburse Operator for all such taxes.

Non-Operator will not be responsible for any part of the cost of drilling, completing, testing, equipping, producing, reworking or plugging the unit well, nor will Non-Operator be liable for any injury or damage resulting from operations upon the Unit. Operator will not be liable for any injury or damage resulting from operations upon any part of the unit area not under the control of Operator.

It is expressly agreed that it is not the purpose or intention of this agreement to create, nor shall it be construed as creating, any mining partnership, commercial partnership or other partnership relation, nor shall the operations of the parties hereunder be construed or considered as a joint venture.

While each of the parties hereto recognizes that its rights and liabilities hereunder are several and not joint or collective, if, solely for Federal Income Tax purposes, and for no other reason, the parties should be regarded as partners or joint venturers, and the operations carried on under this agreement be required to be treated as a partnership as defined in Section 761 of the Internal Revenue Code for Federal Income Tax purposes, each and all of the parties hereto do hereby elect to exclude such operations from the application of all of subchapter K of the Internal Revenue Code of 1954 as provided in Section 761(a) thereof.

Notwithstanding any provision contained herein to the contrary, each of the parties hereto shall have the right to take its proportionate share of

the dry gas and associated liquid hydrocarbons from the Unit in kind or to personally sell or dispose of the same, and nothing herein shall be construed as giving or granting to Operator the right to sell or otherwise dispose of the proportionate share of Non-Operator without specific authorization from time to time to do so; provided, however, any extra expense incurred by Operator in making delivery of production in kind shall be borne by the party to which delivery is made.

If Non-Operator fails to take in kind or separately dispose of its proportionate share of production, Operator shall have the right on a month-to-month basis to purchase for its own account, Non-Operator's share of such production, or Operator may sell to others for the account of Non-Operator at not less than the prevailing market price; provided, that Operator's right to sell Non-Operator's share of production shall be revocable at will by Non-Operator; and provided further, that any contract for the sale of Non-Operator's share of production to third parties shall be for such reasonable period of time only as is consistent with the minimum needs of the industry under the circumstances and shall in no event exceed one year.

8.

Each party hereto will account to and pay to the owners thereof, rentals, royalty, overriding royalty or payments from production due under the terms of its lease or leases upon the production allocated to the respective tract or tracts of such party.

9.

Each of the parties hereto shall have access to the unit area at all reasonable times to inspect and observe any unit operations thereon and shall have access at reasonable times to information pertaining to the development or operations thereof.

10.

It is understood in connection with the development of the unit that Operator will, within one-hundred twenty (120) days after the effective date of this agreement and of that certain Gas Pooling Agreement of even date herewith, made and entered into by the parties hereto, recomplete its W. A. Weir Well No. 7 as a gas well from which dry gas and associated liquid hydrocarbons under this agreement will be produced. If for any reason Operator should be unable to recomplete said well within said period or if it should fail to obtain production of dry gas in paying quantities, then in that event, this Operating Agreement and the above Gas Pooling Agreement shall terminate and be of no further force or effect; provided, however, that Operator may at its discretion, within said one-hundred twenty (120) day period, utilize any other well owned by it within the unit area as the unit well, or Operator may, at its discretion, undertake to drill a new gas well within the unit area and to utilize it as the unit well, and in either event it is agreed that Operator shall not be entitled to receive any greater amount for services performed than is provided by paragraph 3 herein.

Operator shall use reasonable diligence in operating and maintaining the unit well so as to produce and develop a maximum quantity of gas subject to the limitations of the applicable gas purchase agreement, and the orders, rules and regulations of any governmental agencies. The cessation in whole or in part of any such production for the purpose of operating, maintaining or reworking of a well deemed advisable by Operator, whether for the production of gas or for the production of other hydrocarbons produced or producible from the same well, shall not be considered as due to a lack of diligence. After a unit well is completed, Operator shall not be required to expend more than a reasonably prudent operator would expend to maintain such unit well as a producing well, and Operator may plug and abandon any unit well if a reasonably prudent operator would do so under similar circumstances; provided, however, that Operator may at its discretion upon the abandonment of any unit well utilize another well owned by it within the unit area as the unit well subject to the terms and conditions of this agreement.

In the event Operator is rendered unable wholly or in part by force majeure applying to its operations to carry out its obligations under this contract, it is agreed that Operator's obligations so affected shall be suspended during the continuance of such inability and such cause shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of rulers and peoples, including difficulty in obtaining pipe or other material or other difficulty in carrying out the drilling program herein set out because of government edict or regulation, civil disturbances, explosions, breakage or accident to machinery or lines of pipe and any other cause, whether of the kind herein enumerated or otherwise not within the control of the party claiming suspension, all of which by the exercise of due diligence such party is unable to foresee or overcome; provided, however, that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure shall be remedied with the exercise of due diligence shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

11.

All employees shall be the employees of Operator and the number and selection of such employees and their compensation for services shall be determined by Operator.

12.

Operator shall provide adequate Workmen's Compensation and Liability Insurance at its cost. In the event Operator is a self-insurer, then such Operator shall be fully responsible for such Workmen's Compensation and Liability coverage.

13.

This agreement is made without warranty of any kind on the part of the parties hereto and it is understood that any title loss occurring after the execution of this agreement shall be borne by the party who contributed the interest on which title fails; provided, however, there shall be no retroactive adjustment of production or costs incurred prior to such loss.

14.

This agreement and the terms hereof shall inure to the benefit of, and be binding upon the parties hereto, their respective heirs, personal representatives, successors and assigns.

15.

This agreement shall be effective as of the effective date of that certain Gas Pooling Agreement of even date herewith, made and entered into by the parties hereto, and subject to the provisions of Section 10 above, shall remain in force and effect for a period of one year from such effective date and as long thereafter as dry gas with or without associated liquid hydrocarbons is produced from any part of the pooled proration unit in paying quantities. Provided, however, that after the expiration of said one year period should the unit well or wells be reclassified by the New Mexico Oil Conservation Commission or should the Pooled Proration Unit cease to produce gas in paying quantities for any cause, this agreement shall not terminate if within six (6) months after the date of such reclassification or the cessation of such production, Operator shall commence operations for the purpose of restoring gas production from the Pooled Proration Unit, in which event this agreement shall remain in full force and effect during the period such operations are being diligently prosecuted and as long thereafter as gas is produced in paying quantities.

