

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
EXHIBIT No. 2
CASE 1246

OPERATING AGREEMENT ON OIL AND GAS
MINING LEASE

THIS AGREEMENT made and entered into this _____ day of _____, 1956, by and between Carl E. Maxey and Paulene E. Maxey, his wife, hereinafter referred to as Owners, and Claud E. Aikman and Gladys J. Aikman, his wife, hereinafter referred to as Operator,

WITNESSETH:

WHEREAS, Owners are the present owner and holder of that certain oil and gas mining lease wherein the United States of America is the Lessor, and Carl E. Maxey is the Lessee, Serial No. NM 013885, dated March 1, 1954, covering the following described lands in San Juan County, New Mexico, to-wit:

TOWNSHIP 29 NORTH, RANGE 12 WEST, N.M.P.M.

Sec. 24 - N/2 N/2, SE/4 NE/4, SW/4 NW/4,
NE/4 SE/4, NW/4 SW/4, containing
320 acres, more or less;

and,

WHEREAS, Owners desire to grant unto Operator the sole and exclusive right to drill and operate the above described land for the discovery and production of oil and/or gas and liquid hydrocarbons in all formations down through and to the base of the Pictured Cliffs Formation and Operator desires to accept and exercise such right;

NOW, THEREFORE, for and in consideration of the sum of FIVE DOLLARS (\$5.00) and other good and valuable considerations to Owners in hand paid by Operator, the full receipt and sufficiency of which is hereby acknowledged and confessed, it is understood and agreed between the parties as follows:

1.

Owners do hereby give, grant and convey unto the said Operator the sole and exclusive right to drill and operate in and on the above described land for the discovery and production of dry gas, oil and liquid hydrocarbons in all formations lying between the

surface and the base of the Pictured Cliffs Formation together with the sole right to take and appropriate for Operator's own use and benefit all dry natural gas, oil, or liquid hydrocarbons, or all of them, lying in and under said lands in all formations from the surface down to and including the base of the Pictured Cliffs Formation, and all dry gas, oil and liquid hydrocarbons, or all of them, produced therefrom subject to the terms and provisions of this agreement and of the above described gas and oil mining lease, during the term of said lease and any and all renewals and extensions thereof, and for the full term of any exchange or other lease obtained pursuant thereto and any and all renewals thereof.

2.

It is mutually understood and agreed by the parties hereto that to the extent that may be necessary, and that may be permitted by applicable laws or regulations, the royalties which may become due the lessor by reason of the operations of the Operator hereunder, the same shall apply against Owners' rental or minimum royalty (or such rental or minimum royalty of the lessee under the above referred to oil and gas mining lease) on all lands covered by the above described oil and gas mining lease.

3.

Owners, as a part of the consideration of this agreement, do hereby reserve unto themselves, their heirs, executors, administrators, successors or assigns, as a free and overriding royalty, an undivided three per cent (3%) of all the oil, gas and other minerals produced, saved and marketed from the above described premises. The overriding royalty herein reserved shall be delivered free and clear of all costs, charges and expenses, except taxes, and shall extend to all renewals and extensions of said lease.

4.

Operator agrees to complete one test well on the above described land or on land communitized or pooled therewith, on or

before May 1, 1957, said well to be located on such location or drilling site as shall be selected by Operator, and drilled to a sufficient depth to adequately test the Pictured Cliffs Formation, or to a total depth of Two Thousand One Hundred Feet (2,100 feet) whichever shall first occur. In the event said test well is successfully completed for the production of gas or oil, or both, in a sufficient quantity, and of a sufficient potential to warrant a prudent operator to make further development, Operator will drill a second well to test the Pictured Cliffs Formation, commencing such well within a reasonable time after completion of the first.

5.

It is understood and agreed that under the rules and regulations of the New Mexico Oil Conservation Commission the above described lands do not include an orthodox drilling and/or proration unit for development of the Pictured Cliffs Formation. Operator agrees to attempt to form an orthodox drilling unit by purchase or communitization, or in the alternative, to seek approval of the Oil Conservation Commission of New Mexico of a non-standard drilling and proration unit, together with such approval of well location as may be necessary and proper.

6.

Operator agrees, in the event commercial production has not been obtained by the next rental paying date (March 1, 1957) in sufficient quantities to hold the lease by production, to pay such rentals before delinquent.

7.

Owners hereby reserve and retain unto themselves, their heirs, successors, executors, administrators, and assigns, the right to use so much of the surface of the above described lands to explore and develop formations below the base of the Pictured Cliffs Formation and hereby covenant and agree that they will conduct operations so as to interfere as little as possible with the operations of Operator, and Operator shall have the equal right to use

so much of the surface of said land as may be necessary to conduct operations in the formations down to and including the base of the Pictured Cliffs Formation for the discovery and production of oil, dry gas, and liquid hydrocarbons, which operations are to be conducted so as to interfere as little as possible with the operations of Owners. Owners further covenant and agree that in the conduct of their operations they will, in penetrating the Pictured Cliffs Formation, effectively case off the dry gas and liquid hydrocarbon deposits therein so as to prevent as much as possible the loss or escape of dry gas and liquid hydrocarbons from the Pictured Cliffs Formation and prevent any injury or damage to said formation occasioned by their operations. Both Owners and Operator shall have full rights of ingress and egress in carrying out their respective operations on said land.

8.

It is understood and agreed by and between the parties hereto that should either Owners or Operator herein, their heirs, assigns, executors or administrators, desire to surrender the interest in the lease covered by this agreement, the party so desiring to surrender such interest shall give to the other party hereto written notice thereof at least 30 days before making such a surrender. Should the other party hereto not agree or consent to such surrender, the party so desiring to surrender shall assign and convey without warranty of any kind, either expressed or implied, all of their interest in such lease to the other party hereto and thereupon, the party so assigning their interest in such lease shall be relieved of and from any and all obligations under such lease and this agreement thereafter, but not theretofore, accruing. The provisions hereof shall be considered covenants running with the lands and lease during the life of the lease and all modifications, renewals and extensions thereof, and shall bind the parties hereto, their legal representatives, successors, heirs and assigns, and any grant, transfer or assignment of the lease shall be subject to the provisions hereof.

9.

Owners hereby covenant and agree that they will at all times save and keep Operator harmless from and against any and all losses, damages, claims or injuries occasioned by the drilling and all other operations of Owners on the above described lands. Operator hereby covenants and agrees that he will at all times save and keep Owners harmless from and against any and all losses, damages, claims or injuries occasioned by the drilling and all other operations of Operator on the above described lands.

10.

Operator shall have the right to remove from time to time from said land all machinery, rigs, pipe, casing, pumping stations and other property and improvements belonging to or furnished by Operator provided that such removal shall be completed within a reasonable time after the termination of this agreement.

11.

Owners hereby covenant with Operator that they are the lawful owners of the above described lease and the rights and interests thereunder, and that they have good title and full right to sell and convey the same, and that said lease is free and clear from all liens and incumbrances.

12.

The rights, title and interests hereby granted by Owners to Operator shall be irrevocable and Operator shall be entitled to have and retain all of the dry gas, oil and liquid hydrocarbons produced from any and all formations in and under the above described lands, from the surface of the earth to the base of the Pictured Cliffs Formation, subject only to the terms and conditions of the above described lease, and the payment of royalties as herein provided.

Dry gas, oil and liquid hydrocarbons, as those terms are used herein, shall be construed to mean "gas in its natural state as produced from the well and includes its content of gasoline and

all liquid or liquefiable hydrocarbons produced at the wellhead by ordinary production methods, oil, casinghead, and/or residue gas."

13.

All of the terms and provisions of this agreement shall be deemed as covenants running with the land and the interest of the parties hereto shall be binding upon and shall inure to the benefit of the parties, their legal representatives, heirs, successors and assigns.

IN WITNESS WHEREOF, this agreement is executed in counterpart originals as of the day and year first above written.

Carl E. Maxey

Paulene E. Maxey

Claud E. Aikman

Gladys J. Aikman

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956, by Carl E. Maxey and Paulene E. Maxey, his wife.

My commission expires: _____ Notary Public

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 1956, by Claud E. Aikman and Gladys J. Aikman, his wife.

My commission expires: _____ Notary Public