

COMMUNITIZATION AND OPERATING AGREEMENT

THIS AGREEMENT, made and entered into this 1st day of October, 1960, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto";

WITNESSETH: That,

WHEREAS, the parties hereto own working, royalty, and other leasehold interest or operating rights under the oil and gas leases and lands, or other mineral interests in said lands, which are subject to this Agreement, and which interests and rights in said lands cannot be independently developed and operated in conformity with the well spacing program established for the field or area in which said lands are located; and,

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interest in said lands for the purpose of developing and producing oil and associated liquid hydrocarbons in accordance with the terms and conditions of this Agreement;

NOW THEREFORE, in consideration of the premises and the mutual advantage of the parties hereto, it is mutually covenanted and agreed by and between the parties hereto, as follows:

1. The lands covered by this Agreement (hereinafter referred to as "communitized area") are described as follows:

Township 19 South, Range 37 East, N.M.P.M.

Section 32: SE $\frac{1}{4}$ NE $\frac{1}{4}$

containing 40 acres, more or less, Lea County, New Mexico, and this Agreement shall extend to and include only the formations within the vertical limits of the Queen formation underlying said lands and the oil and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this Agreement for all purposes, is Exhibit "A" designating the Operator of the communitized area and showing the acreage, percentage, and ownership of communitized substances in all lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this Agreement. A Successor Operator may be designated by a majority in interest of the owners of the working interest in the communitized area.

4. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom, and all costs of operation and production, shall be allocated among the lands comprising said area in the proportion that the acreage interest of each leasehold or mineral fee interest bears to the entire acreage committed to this Agreement.

5. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area shall be determined and paid on the basis prescribed in each of the individual leases. Except as herein modified and changed, the oil and gas leases subject to this Agreement shall remain in full force and effect as originally made or issued.

6. There shall be no obligation on the lessees to offset any oil well or wells completed in the same formation as covered by this Agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diversified ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

7. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this Agreement shall be deemed to be operations or production as to each lease committed hereto.

8. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable State statutes. This Agreement shall be subject to all applicable State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this Agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

9. It is agreed that it is to the mutual advantage of the parties hereto that the well presently located on the communitized area be reworked in an effort to stimulate production of communitized substances. In this connection, each of the parties hereto owning working, leasehold or operating rights under oil and gas leases and each of the parties hereto owning mineral fee interests embracing parts of the communitized area (hereinafter referred to as "working interest parties hereto") agree that such reworking operations shall be undertaken by Operator for the joint account of the working interest parties hereto, and that all costs and expenses --- estimated at \$10,000.00 --- incident to such reworking operations shall be borne and paid by the working interest parties hereto in the proportion and interest that each owns working, leasehold or operating rights or mineral fee interests in parts of the communitized area; for the purpose of calculating the amount owed by each of the working interest parties hereto, any owner of a ~~mineral~~ mineral fee interest shall be deemed to

be a working or leasehold owner of such mineral interest under a lease providing for the usual 1/8th oil and gas royalty. Such reworking operation shall be commenced by Operator on or before March 1, 1961 or this Agreement shall thereupon terminate without liability or damage to any of the parties hereto.

10. In further connection with the above mentioned reworking operations, and operations on the communitized area subsequent thereto, it is agreed:

(a) Operator shall conduct, direct and have full control of all operations as permitted and required by, and within the limits of, this Agreement. Operator shall conduct all operations hereunder in a good and workmanlike manner, but it shall have no liability as Operator to the other parties hereto for losses sustained or liabilities incurred, except such as may result from gross negligence or from the breach of the provisions of this Agreement. Operator shall control and conduct all future development, producing, maintenance and other operations on the communitized area and communitized substances covered by this Agreement, and in connection therewith Operator is granted full power to do whatever is necessary or proper to that end, subject however to the limitation that subsequent to the completion of such reworking operations, Operator shall make no single expenditure of in excess of \$1,000.00 without the written consent of 75% in interest of the working interest parties hereto.

(b) Operator shall promptly pay and discharge all costs and expenses incurred in the above reworking operations, and in the future operations and development of the communitized area for the production of communitized substances, and Operator shall charge each of the working interest parties hereto with their respective proportionate share thereof upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "B". Each working interest party hereto shall pay to Operator his or her proportionate share of such expenses within fifteen (15) days after receipt of a statement or invoice therefor, and if any such party fails to pay his or her share within such time limit, the amount due shall bear interest at the rate of 6% per annum until paid. Operator is given a first and preferred lien on the interest of each of the working interest party hereto, and in each such party's interest in communitized substances produced, and the proceeds therefrom, and upon each such party's interest in material and equipment in or appurtenant to said well; all to secure the payment of the sums due from each of such party to Operator, and in the event any such party fails to pay any amount owing by he or she to Operator in the amount and within

the time limited for the payment thereof, Operator, without prejudice to other existing remedies, is authorized at its election, to collect from the purchaser or purchasers of communitized substances the proceeds accruing to the net interest of such delinquent party up to the amount owing by such party; and each purchaser of communitized substances is authorized to rely upon Operator's statement as to the amount owing by such party.

(c) Each working interest party hereto shall have the continuing right to receive in kind and separately dispose of his or her proportionate share of all communitized substances produced from the communitized area, exclusive of communitized substances which may be used in development and producing operations, that used in preparing and treating oil for marketing purposes and that unavoidably lost. Each working interest party hereto shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties and other payments due from his or her share of such production, and shall hold the other working interest parties hereto free from all liability therefor. Any extra expenditure incurred in taking in kind or separate disposition by any working interest party hereto of his or her proportionate share of communitized substances shall be borne by such party. In the event any working interest party hereto shall fail to take or otherwise adequately dispose of his or her proportionate share of communitized substances produced from the communitized area currently as and when produced, then so long as such conditions continue, Operator, for the account and at the expense of such working interest party hereto, and in order to avoid curtailment of operations hereunder, may sell or otherwise dispose of such production to itself or to others at not less than the prevailing market price in the area for like production, and the account of such working interest party hereto shall be charged therewith as having received such production. The net proceeds arising from such sale, less any amount due by such working interest party hereto to Operator, shall be paid by Operator to such working interest party hereto. All such sales by Operator shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall such sales be for a period in excess of one year; and in the event such sale is made into interstate commerce, Operator shall give the affected working interest party hereto sixty (60) days' notice of such intended sale.

(d) The liability of the parties hereto shall be several, not joint or collective. It is not the intention of the parties hereto to create, nor shall this Agreement be construed as creating, a partnership, joint venture, mining or other partnership, or association, nor to render them liable as partners. If for Federal Income Tax purposes, this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elect to be excluded from the application of all of the provisions of Sub-Chapter K,

Chapter 1, Sub-Title A of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 thereof, and Operator is hereby authorized and directed to execute and deliver on behalf of each of the parties hereto, such evidence of this election as may be required by applicable authority.

11. This Agreement shall be effective as of the date the above reworking operations are commenced on the well presently situated in the communitized area, and shall remain in force and effect for a period of two years and so long thereafter as communitized substances are or can be produced from the communitized area in paying quantities, provided that prior to production in paying quantities from the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This Agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

12. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be, and hereby is, conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest.

13. This Agreement shall be binding upon the parties hereto, and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

14. This Agreement may be executed in any number of counterparts, no one of which need be executed by all of the parties, and may be ratified or consented to by separate instrument, in writing, specifically referring hereto; and this Agreement shall be binding upon all parties who have executed such counterpart, ratification, or consent hereto with the same force and effect as if all the parties had signed the same document.





IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }  
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this \_\_\_ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

\_\_\_\_\_  
Notary Public

(Notary Seal)

Raymond Buttrick

740 Woodrow Ave Glendale, C.

Les Scheid  
Richard J. Hickey

Edward C. Golden  
Margaret M. Golden

STIPULATION

J. B. Headley, owner of a royalty interest and mineral interest in Tract No. 1, hereby signs this agreement upon the stipulation that his letter of December 16, 1960, to Great Western Drilling Company inquiring the definition of "mineral fee interest"; the answer by Great Western Drilling Company by J. B. Huckabay, Jr., Land Department, dated December 19, 1960, defining "mineral fee interest" and that the term means an unleased mineral interest and that such letters shall be made a part of this instrument so far as the J. B. Headley interest (only) is concerned.



IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }  
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this \_\_\_ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

\_\_\_\_\_  
Notary Public

(Notary Seal)

ATTEST:  
[Signature]  
Secretary

SOUTHERN PETROLEUM EXPLORATION, INC.  
By: Paul W. Hunschurder  
President

ATTEST:  
[Signature]  
Secretary

CONTINENTAL CORPORATION  
By: Paul J. Johnston  
President

ATTEST:  
[Signature]  
Secretary

ATLANTIC OIL CORPORATION  
By: Paul J. Johnston  
President

WITNESS: R. W. Pearman

[Signature]  
C. B. Neal

RWP

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }  
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this \_\_\_ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

\_\_\_\_\_  
Notary Public

(Notary Seal)

Etha Annberry Maxwell

ATTEST:  
[Signature]  
Secretary

NORTH CENTRAL OIL CORPORATION  
BY: [Signature]  
Vice President

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

ATTEST:

GREAT WESTERN DRILLING COMPANY

By R. W. Pearman, Assistant Secretary

By R. C. Tucker, President

WORKING INTEREST OWNER AND OPERATOR

STATE OF TEXAS }  
COUNTY OF MIDLAND } SS.

The foregoing instrument was acknowledged before me this \_\_\_ day of October, 1960 by R. C. Tucker, President of Great Western Drilling Company, a Texas corporation, on behalf of said corporation.

My Commission Expires:

June 1, 1961

\_\_\_\_\_  
Notary Public

(Notary Seal)

Lowe Land Co.

Brady M. Lowe  
Secretary

H. L. Lovel President

L. T. Lewis

EXHIBIT "A" TO COMMUNITIZATION  
AND OPERATING AGREEMENT, dated  
October 1, 1960, embracing the  
SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32, Township 19  
South, Range 37 East, N.M.P.M.

OPERATOR: Great Western Drilling Company  
P. O. Box 1659  
Midland, Texas

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Tract No. 1

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32 described  
by metes and bounds as follows:

Beginning at the Northwest corner of the  
said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence South along  
the West line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section  
32; 1320 feet, more or less, to the South-  
west corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32;  
thence East, along the South line of the  
said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32, 1320 feet, more or  
less, to the Southeast corner of the SE $\frac{1}{4}$ NE $\frac{1}{4}$   
Section 32; thence North along the East  
line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32, 862  
feet; thence West 855 feet; thence North  
458 feet, more or less, to the North line  
of said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence West  
along said North line 94 feet; thence South  
210 feet; thence West 100 feet; thence  
North 210 feet, more or less, to the North  
line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence  
West along said North line 271 feet, more  
or less, to the point of beginning.

NUMBER OF ACRES: 31 acres, more or less.

LEASE: Lessor: W. L. Crutchfield et ux  
Lessee: H. B. Anthony, Jr. et al  
Date: March 5, 1931  
Interest  
Covered: All

Tract No. 1 (cont.)

WORKING INTEREST  
AND PERCENTAGE:

✓H. B. Anthony, Jr. . . . .	5/128	W.I.
✓W. L. Hoyt . . . . .	10/32	W.I.
✓Raymond Anthony . . . . .	5/128	W.I.
✓Dr. Hans May . . . . .	5/64	W.I.
✓Great Western Drilling Company . . . . .	<u>17/32</u>	W.I.
Total . . . . .	ALL	W.I.

ROYALTY INTEREST  
AND PERCENTAGE:

✓Southern Petroleum Exploration, Inc. . . . .	300/852	R.I.
✓B. A. Bowers . . . . .	4/852	R.I.
✓L. R. Kershaw . . . . .	30/852	R.I.
✓Estate of George F. Henneberry . . . . .	36/852	R.I.
✓Mrs. Ora B. Gay . . . . .	12/852	R.I.
✓H. L. Lowe . . . . .	8/852	R.I.
✓Edward A. Golden . . . . .	6/852	R.I.
✓Continental Corporation . . . . .	3/852	R.I.
✓Harry W. Walker Estate . . . . .	114/852	R.I.
✓William R. Kershaw . . . . .	30/852	R.I.
✓Atlantic Oil Corporation . . . . .	36/852	R.I.
✓M. M. Lawellin . . . . .	60/852	R.I.
✓J. B. Headley . . . . .	12/852	R.I.
✓L. T. Lewis . . . . .	12/852	R.I.
✓W. C. Lawrence Estate . . . . .	12/852	R.I.
✓J. D. Atwood Estate . . . . .	12/852	R.I.
✓Frances Smyrl Jennings . . . . .	12/852	R.I.
✓Chase Manhattan Bank, SPL. A/C F-NC . . . . .	<u>153/852</u>	R.I.
Total . . . . .	ALL	R.I.

Tract No. 2

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32, described by metes and bounds, as follows:

Commencing at a point which is 271 feet East of the Northwest corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence South 210 feet; East 100 feet; North 210 feet, more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence West, along the North line 100 feet, more or less, to the point of beginning.

NUMBER OF ACRES: .48 acres, more or less.

LEASE: Lessor: Lowe Land Company et al  
Lessee: Great Western Drilling Company  
Date: July 1, 1960  
Interest Covered: All

WORKING INTEREST AND PERCENTAGE		
H. B. Anthony, Jr. . . . .	5/128	W.I.
W. L. Hoyt . . . . .	10/32	W.I.
Raymond Anthony . . . . .	5/128	W.I.
Dr. Hans May . . . . .	5/64	W.I.
Great Western Drilling Company . . . . .	<u>17/32</u>	W.I.
Total . . . . .	ALL	W.I.

ROYALTY INTEREST AND PERCENTAGE		
Estate of Nettie Lowe . . . . .	1/2	R.I.
Lowe Land Company . . . . .	<u>1/2</u>	R.I.
Total . . . . .	ALL	R.I.

Tract No. 3

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32, described by metes and bounds, as follows:

Beginning at a point which is 465 feet East of the Northwest corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence South 380 feet; thence East 285 feet; thence North 380 feet; more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence West along said North line 285 feet, more or less, to the point of beginning.

NUMBER OF ACRES: 2.55 acres, more or less.

PART A:

Unleased: Fred Manley  
Interest: Undivided 1/4th interest

PART B:

LEASE: Lessor: Lowe Land Company et al  
Lessee: Great Western Drilling Company  
Date: July 1, 1960  
Interest Covered: Undivided 3/4ths interest

WORKING INTEREST  
AND PERCENTAGE:

H. B. Anthony, Jr. ....	5/128	} of 3/4 W.I.
W. L. Hoyt.....	10/32	
Raymond Anthony.....	5/128	
Dr. Hans May.....	5/64	
Great Western Drilling Co. ....	17/32	
Fred Manley.....	1/4	W.I.
Total.....		ALL W.I.

ROYALTY INTEREST  
AND PERCENTAGE:

Estate of Nettie Lowe.....	1/2	} of 3/4 R.I.
Lowe Land Company.....	1/2	
Fred Manley.....	1/4	
Total.....		ALL R.I.

Tract No. 4

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32, described by metes and bounds, as follows:

Beginning at a point 750 feet East of the Northwest corner of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32; thence South 200 feet; thence East 115 feet; thence North 200 feet, more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence West along said North line 115 feet, more or less, to the point of beginning.

NUMBER OF ACRES: .53 acres, more or less.

Unleased: May Williams

Interest: All

WORKING INTEREST AND PERCENTAGE: May Williams..... All W.I.

ROYALTY INTEREST AND PERCENTAGE: May Williams..... All R.I.

Tract No. 5

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32, described by metes and bounds, as follows:

Beginning at a point which is 865 feet East of the Northwest corner of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence South 200 feet; thence West 115 feet; thence South 180 feet; thence West 285 feet; thence South 78 feet; thence East 855 feet, more or less, to the East line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence North, along said East line, 248 feet; thence West 210 feet; thence North 210 feet, more or less, to the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence West 245 feet, more or less, to the point of beginning.

NUMBER OF ACRES: 4.44 acres, more or less.

LEASE: Lessor: Lowe Land Company  
Lessee: Great Western Drilling Company  
Date: July 1, 1960  
Interest Covered: All

WORKING INTEREST AND PERCENTAGE:

H. B. Anthony, Jr. . . . .	5/128	W.I.
W. L. Hoyt . . . . .	10/32	W.I.
Raymond Anthony . . . . .	5/128	W.I.
Dr. Hans May . . . . .	5/64	W.I.
Great Western Drilling Company . . . . .	<u>17/32</u>	W.I.
Total . . . . .	ALL	W.I.

ROYALTY INTEREST AND PERCENTAGE:

Estate of Nettie Lowe . . . . .	1/2	R.I.
Lowe Land Company . . . . .	<u>1/2</u>	R.I.
Total . . . . .	ALL	R.I.

Tract No. 6

LANDS: A part of the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of said Section 32, described by metes and bounds, as follows:

Beginning at a point which is 1,110 feet East of the Northwest corner of said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence South 210 feet; thence East 210 feet, more or less, to the East line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence North, along said East line, 210 feet, more or less, to the Northeast corner of said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32; thence West, along the North line of the said SE $\frac{1}{4}$ NE $\frac{1}{4}$  Section 32, 210 feet, more or less, to the point of beginning.

NUMBER OF ACRES: 1 acre, more or less.

Unleased: W. L. Crutchfield

Interest: All

WORKING INTEREST AND PERCENTAGE: W. L. Crutchfield..... All W.I.

ROYALTY INTEREST AND PERCENTAGE: W. L. Crutchfield..... All R.I.

## EXHIBIT " "

PASO-T-1955-2

Attached to and made a part of Communization and Operating Agreement dated October 1, 1960 between Great Western Drilling Company, Operator and H.B. Anthony Jr. et al, non-operators

**ACCOUNTING PROCEDURE****(UNIT AND JOINT LEASE OPERATIONS)****I. GENERAL PROVISIONS****1. Definitions**

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

**2. Statements and Billings**

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph ..... below:

- A. Statement in detail of all charges and credits to the joint account.
- B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
- C. Statements as follows:
  - (1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;
  - (2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
  - (3) Detailed statement of any other charges and credits.

**3. Payments by Non-Operator**

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

**4. Adjustments**

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

**5. Audits**

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

**II. DEVELOPMENT AND OPERATING CHARGES**

*Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:*

**1. Rentals and Royalties**

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

**2. Labor**

- A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.
- B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

**3. Employee Benefits**

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

**4. Material**

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

**5. Transportation**

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

- A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

**6. Service**

- A. Outside Services:  
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:  
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

**7. Damages and Losses to Joint Property and Equipment**

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

**8. Litigation Expense**

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
- B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

**9. Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

**10. Insurance and Claims**

- A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

**11. District and Camp Expense (Field Supervision and Camp Expense)**

~~A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near \_\_\_\_\_ (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.~~

**12. Administrative Overhead**

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE Each Well	PRODUCING WELL RATE (Use Completion Depth)		
		First Five	Next Five	All Wells Over Ten
T.D.	—	\$80-	—	—

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
  - (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
  - (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
  - (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
  - (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
  - (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
  - (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
  - (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

**13. Operator's Fully Owned Warehouse Operating and Maintenance Expense**

(Describe fully the agreed procedure to be followed by the Operator.)

NONE

**14. Other Expenditures**

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

**III. BASIS OF CHARGES TO JOINT ACCOUNT**

**1. Purchases**

Material and equipment purchased and service procured shall be charged at price paid by Operator after deduction of all discounts actually received.

**2. Material Furnished by Operator**

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

**A. New Material (Condition "A")**

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

**B. Used Material (Condition "B" and "C")**

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning,
 shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

**3. Premium Prices**

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

**4. Warranty of Material Furnished by Operator**

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

**5. Operator's Exclusively Owned Facilities**

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

#### **IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL**

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

##### **1. Material Purchased by the Operator or Non-Operator**

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

##### **2. Division in Kind**

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

##### **3. Sales to Outsiders**

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

#### **V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT**

*Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:*

##### **1. New Price Defined**

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

##### **2. New Material**

New material (Condition "A"), being new material procured for the joint account but never used thereon, at one hundred per cent (100%) of current new price (plus sales tax if any).

##### **3. Good Used Material**

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

##### **4. Other Used Material**

Used material (Condition "C"), at fifty per cent (50%) of current new price, being used material which:

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

##### **5. Bad-Order Material**

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

##### **6. Junk**

Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

##### **7. Temporarily Used Material**

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

#### **VI. INVENTORIES**

##### **1. Periodic Inventories, Notice and Representation**

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

##### **2. Reconciliation and Adjustment of Inventories**

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

##### **3. Special Inventories**

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
<u>App. No.</u>	EXHIBIT NO. <u>3</u>
CASE NO. <u>2180</u>	

AFFIDAVIT

STATE OF NEW MEXICO    )  
                                   )    ss.  
 County of Chaves        )

S. B. Christy, IV, a member of the law firm of Hervey, Dow & Hinkle, Box 547, Roswell, New Mexico, which firm is the attorney of record for Great Western Drilling Company in Case No. 2180 before the New Mexico Oil Conservation Commission, does hereby swear that he did on the 19th day of January, 1961, mail a true and correct copy of the Application in the above and foregoing case, postage prepaid, to each of the following persons at the address stated, to-wit:

<u>Name</u>	<u>Address</u>
Etha Henneberry Newell	East Ridge Road Waccabuc, New York
C. B. Neal	P. O. Box 2240 Tulsa, Oklahoma

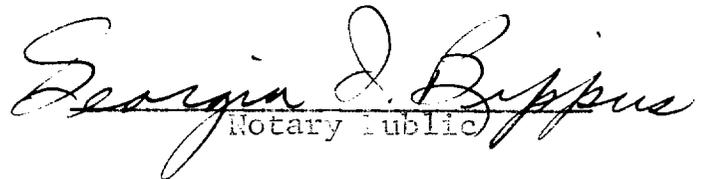
and that he did take such action for and in behalf of Great Western Drilling Company in connection with said Application.

  
 S. B. Christy, IV

Subscribed and sworn to before me this 31st day of January, 1961.

My Commission Expires:

May 10 - 1962

  
 Georgia D. Byppus  
 Notary Public

**BEFORE EXAMINER NUTTER**  
**OIL CONSERVATION COMMISSION**  
*Applic* EXHIBIT NO. 4  
 CASE NO. 2180

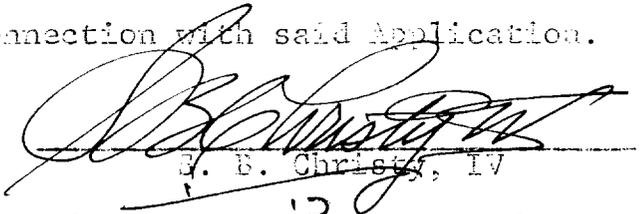
AFFIDAVIT

STATE OF NEW MEXICO )  
 ) ss.  
 County of Chaves )

S. B. Christy, IV, a member of the law firm of Harvey, Dow & Hinkle, Box 547, Roswell, New Mexico, which firm is the attorney of record for Great Western Drilling Company in Case No. 2180 before the New Mexico Oil Conservation Commission, does hereby swear that he did on the 12th day of January, 1961, mail a true and correct copy of the application in the above and foregoing case, postage pre-paid, to each of the following persons at the address stated, to-wit:

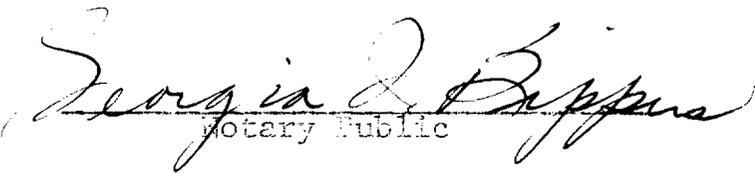
<u>Name</u>	<u>Address</u>
Dr. Hans May	255 S. 17th Street Philadelphia 8, Pennsylvania
William R. Kershaw	Box 143 Mesa, Arizona
William R. Kershaw	1903 No. Taft Street Escondido, California
M. M. Lawellin	Box 2240 Tulsa 2, Oklahoma
J. B. Headley	Box 1017 Roswell, New Mexico
L. T. Lewis	Box 42 Roswell, New Mexico
J. D. Atwood Estate	213 N. Missouri Street Roswell, New Mexico
Frances Smyrl Jennings	Box 27 Roswell, New Mexico
Chase Manhattan Bank	% North Central Oil Corp. Box 317, Wall Street Station New York 5, New York

and that he did take such action for and in behalf of Great Western Drilling Company in connection with said Application.

  
 S. B. Christy, IV

Subscribed and sworn to before me this 12th day of January, 1961.

My Commission Expires:  
May 10 - 1962

  
 Georgia D. Bippus  
 Notary Public

**LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE**



LARGE FORMAT  
EXHIBIT HAS  
BEEN REMOVED  
AND IS LOCATED  
IN THE NEXT FILE