EXHIBIT I

Case 1286

UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
SLICK UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this 19th day of July, 1957, by and between Slick Oil Corporation, of Houston, Texas, party of the first part, hereinafter referred to as "Operator", and Amerada Petroleum Corporation, Champlin Refining Company, F. J. Danglade, Gulf Oil Corporation, Ohio Oil Company, Phillips Petroleum Company, Skelly Oil Company and Warren Petroleum Corporation, parties of the second part, hereinafter referred to as "Non-Operators".

WITNESSETH:

WHEREAS, the parties hereto have concurrently herewith as of the date hereof, entered into a unit agreement for the development and operation of the Slick Unit Area, hereinafter referred to as the "unit agreement", which said agreement embraces the following described land situated in Lea County, New Mexico, hereinafter referred to as the "unit area":

Township 12-South, Range 34-East, N.M.P.M.

Section 36: All

Township 13-South, Range 34-East, N.M.P.M.

Section 1: Lots 1, 2, 3, and 4, $S\frac{1}{2}N\frac{1}{2}$, $S\frac{1}{2}$
Section 2: Lots 1 and 2, $S\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}$

containing 1595.89 acres, more or less; and

WHEREAS, Section 6 of said unit agreement provides that costs and expenses and working interest benefits are to be allocated and apportioned among the working interest owners in accordance with the terms of an operating agreement to be entered into by and between such working interest owners and this agreement is entered into between the parties hereto in accordance with said Section 6 of the unit agreement.

NOW, THEREFORE, it is mutually agreed between the parties hereto as follows:

ARTICLE I

Conflict with Unit Agreement

In the event of any conflict between the terms of this agreement and the terms of the unit agreement referred to hereinabove, the terms of said unit agreement shall be deemed to control and this agreement modified accordingly.

ARTICLE II

Titles

Upon request of any party to this agreement, the other party shall furnish to the requesting party complete abstract or abstracts of title to its interest in said lands, together with all records and information available to or in its possession or files affecting its said title in any way. However, each party hereto warrants and guarantees to the other party, title to the interest it agreed herein to contribute to the joint enterprise covered by this agreement. The intent of each party in giving this warranty and guarantee is to indemnify and save harmless the other party from loss or liability because of any such failure of its or his title. Should the title of any party hereto to any lease or interest contributed to this agreement fail or terminate, in whole or in part, the interest of the party whose title has so failed or terminated shall be reduced in proportion to the amount of title lost; provided that there shall be no retroactive adjustment of any costs or expenses charged prior to the final determination of said loss or failure of title.

ARTICLE III

Operator

Slick Oil Corporation is hereby designated as "Operator" of the unit area and as Operator shall, subject to the terms and provisions of this agreement and said unit agreement, have the full and complete management of the development and operation of said unit area for the production of oil, gas, casinghead gas, and other hydrocarbon substances.

ARTICLE IV

Test Well

Operator shall, on or before August 10, 1957, commence or cause to be commenced, operations for the drilling of a test well for oil and gas to be located in approximately the center of the NE¼NW¼ of Section 1, Township 13-South, Range 34-East, N.M.P.M., and shall drill said well continuously with due diligence and without unnecessary delay to a depth of 13,700 feet or fluid in the Devonian formation, whichever is first attained, unless some impenetrable substance is encountered at a lesser depth. Said well shall be drilled by Operator in accordance with all applicable laws and regulations and all formations in which shows of oil and gas are encountered shall be tested and in the event said well is completed as a dry hole, the same shall be plugged and abandoned by Operator.

ARTICLE V

Participating Interest of Parties

The working interest owners subject hereto as parties of the second part shall be responsible for only such portion of the cost of drilling the initial test well, or plugging the same if a dry hole or a non-commercial well, as they may have expressly agreed to in writing other than by this agreement; provided, however, in the event drill stem tests made in connection with the drilling of said well indicate the discovery of oil or gas in paying quantities in the Devonian formation, or if the Devonian formation proves not to be productive and tests made in the process of the drilling of the well indicate the discovery of oil or gas in paying quantities in any formation found at a lesser depth than the Devonian formation, operations thereafter conducted in connection with the same shall be for the joint account of the parties hereto and shall be borne by such parties in proportions hereinafter set forth which shall include the cost of the production string of casing, tubing, wellhead connections, flow lines, tanks and all other equipment which may be necessary or required to complete such well as such wells are customarily completed in accordance with good oil field practice, and shall also include the cost of plugging back, perforating, fracing, acidizing, and testing and other costs customarily incurred in completing or attempting to complete wells of a similar character.

All development and operating costs incurred by the Operator other than for the drilling of the initial test well in connection with the further development of the unit area in accordance with the terms of this agreement as well as all production of unitized substances therefrom shall be borne and owned by the parties hereto as follows:

Phillips Petroleum Company	10.0257
F. J. Danglade	7.5194
Amerada Petroleum Corporation	2.5065
Gulf Oil Corporation	14.9484
Ohio Oil Company	10.0257
Skelly Oil Company	10.0257
Warren Petroleum Corporation	4.9358
Champlin Refining Company	5.0129
Slick Oil Corporation	34.9999
	100.0000%

ARTICLE VI

Limitations on Expenditures

For the purposes of this agreement, there is hereby established a joint account to be kept by the Operator to which shall be charged all costs and expenses

incurred in drilling and equipping (or plugging and abandonment, if a dry hole) all wells except the initial test well provided for in Article IV hereof.

Operator shall advance and pay all costs and expenses incurred in the development and operation of the lands covered hereby and all such costs and expenses except with respect to the initial test well shall be borne by the parties hereto in the proportions set forth opposite their respective names in Article V hereof, including all buildings, structures, improvements, material, machinery, personal property and other jointly-owned equipment. Operator shall make no single expenditure in excess of Five Thousand Dollars ($5,000) without first obtaining consent thereto by Non-Operators; provided, however, the approval of the drilling of a well in accordance with Article XIII hereof shall include all expenditures for the drilling, completing and equipping such well including the costs and expenses of providing necessary lines, separators, and lease tankage.

Operator, at its election, may require Non-Operators to advance their respective proportionate shares of all drilling, development and operating costs hereunder except in connection with the initial test well. If Operator elects to require such advancements, it shall, on or before the first of each calendar month, submit to Non-Operators an itemized statement of such costs for the succeeding calendar month and within fifteen (15) days thereafter, the respective Non-Operators shall pay their proportionate shares of such estimate to Operator. Adjustment between estimates and actual costs shall be made by the Operator at the close of each calendar month and the accounts of the working interest owners adjusted accordingly for the succeeding calendar month.

ARTICLE VII

Books and Records

Operator agrees to keep accurate records and accounts reflecting all charges, costs and expenses incurred hereunder as well as all credits due or received from the operation of the unit area. All such costs, charges and expenses to be charged to the joint account shall be in accordance with the provisions of the accounting procedure attached hereto, made a part hereof, and for the purposes of identification marked Exhibit "C". In case of conflict between the provisions of the accounting procedure attached hereto as Exhibit "C" and the provisions of this agreement, the provisions hereof shall control. Non-Operators shall pay to Operator

their respective proportionate shares of all such costs, charges and expenses in accordance with said accounting procedure. The books and records of Operator relating to all operations hereunder shall be open for inspection by the respective Non-Operators, or their duly authorized representatives, at all reasonable times.

ARTICLE VIII

Liens

Operator shall keep the land and unit area free from liens and encumbrances occasioned by its operations except such liens as the working interest owners elect to contest and save only the lien granted to the unit operator under this agreement.

ARTICLE IX

Insurance

Operator shall carry insurance and shall require its contractors or subcontraators to carry insurance in the following amounts to cover its operations pursuant to the terms of this agreement:

(a) Workmen's compensation insurance meeting the requirements of the State of New Mexico; and employers liability insurance with limits of not less than $25,000

(b) General public liability insurance with limits of not less than $100,000 for any one person in any one accident and not less than $300,000 for more than one person injured in any one accident, and not less than $300,000 for property damage per accident;

(c) Automobile public liability and property damage insurance for not less than $100,000 for injuries to one person, and $200,000 for injuries in one accident, and $5,000 for property damage.

All premiums paid for insurance carried by Operator as hereinabove provided shall be charged to the joint account as operating expenses and shall be paid by the parties hereto in the same manner as other operating expenses are to be paid. Operator will furnish all Non-Operators with certificates of insurance in compliance with the above.

ARTICLE X

Taxes

Operator shall render, for ad valorem tax purposes, the entire leasehold

rights and interests covered by this contract and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under existing laws, or which may be made subject to taxation under future law and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill Non-Operators for their proportionate shares of such tax payments as provided by the accounting procedure attached hereto.

In the event any taxable valuation is assessed upon or against said property or any portion thereof, which the Operator deems to be unreasonable, it shall be the duty of Operator to protest said taxable valuation within the time and manner as prescribed by law, and prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final determination. When any such protested valuation of such property shall have been determined, Operator shall pay, for the joint account, the taxes so determined together with any interest or penalty accrued by reason of such protest, and bill Non-Operators for their proportionate shares of such payments in accordance with the accounting procedure attached hereto.

Each of the parties hereto shall have the right, at their own expense, to appear and participate in any proceeding to protest taxable valuation or other matters arising thereunder.

ARTICLE XI

Offset Obligations

Operator will, for the joint account of the parties hereto, comply with all of the express and implied covenants of the leases subject hereto, and shall operate and develop said leasehold premises as a prudent operator; provided, however, that Operator shall not be required to drill any well to meet any offset well obligation or obligations unless the drilling of such well is mutually agreed upon by the parties hereto, subject, however, to the rights granted the parties under the provisions of Article XIII hereof.

ARTICLE XII

Drilling Contracts

All wells drilled within the unit area after the initial test well is drilled shall be drilled on a competitive contract basis at the usual rates pre-

vailing in the region of the unit area. Operator may, if it so desires, employ its own tools and equipment in the drilling of such wells but in such event the charge therefor shall not exceed the competitive prevailing rate charged by independent contractors doing work of a similar nature. If the parties who are to participate in the cost of drilling any well are unable to mutually agree upon the competitive contract price, Operator shall obtain bids from at least three responsible drilling contractors who are ready, able and willing to drill a well of a type contemplated by the parties hereto at the proposed well location, and said competitive contract price shall be the lowest acceptable bid received which will result in the most economical drilling of said well. All drilling shall be under contracts approved by the parties hereto which shall contain appropriate provisions that any well drilled and completed shall not deviate in excess of five degrees from perpendicular.

ARTICLE XIII

Additional Drilling

No well other than the initial test well provided for in Article IV hereof shall be drilled on the unit area unless and until agreed upon in writing by the parties hereto; provided, however, that when a well has been authorized Operator shall have full and complete authority to incur any costs and expenses in connection with the drilling and completing of such well without securing the consent of Non-Operators.

In the event the parties hereto are unable to agree upon the drilling of any additional well or upon the deepening, plugging back, or reworking of any well (if such deepening, plugging back, or reworking will cost more than $5,000) which may have been drilled with the mutual consent of the parties hereto, such additional well may be drilled or such operations for the deepening, plugging back, or reworking of any such well may be undertaken by the party or parties desiring to drill or carry on such operation. In such case, the party or parties desiring to drill such well or to carry on such operations shall give written notice to the other party or parties setting forth the estimated cost of the drilling of the well or operations to be carried on and the party or parties to which such notice is directed shall have thirty (30) days within which to elect to participate in the cost of drilling such well or the carrying on of such operations and the failure of such party or parties

to notify the party or parties giving such notice of its or their election to participate in such costs shall be considered as an election not to participate in the cost thereof. The party or parties desiring to drill such well or to carry on such operations shall commence the drilling or other proposed operations within sixty (60) days after the other party or parties shall have signified its or their election not to join therein and thereafter complete such drilling or other operations with due diligence in order to be entitled to the benefits of this article.

In the event any well drilled or any operation for the deepening, plugging back, or reworking of any well in accordance with this article results in a dry hole or a well not capable of producing unitized substances in paying quantities, the party or parties drilling the same or carrying on such operations shall be solely responsible for the cost thereof and all liability arising from or growing out of the same. If the drilling of any such well or the carrying on of such operations should result in the completion of a well capable of producing unitized substances in paying quantities, a separate account shall be kept showing the cost of each such well or such operations and the party or parties which drilled such well or carried on such operations shall be entitled to receive all of the proceeds of production payable on account of the working interest of the non-participating party or parties until such time as the participating party or parties shall have received an amount equal to 200% of the amount which would have been paid by the non-participating party or parties had such party or parties elected to participate in the drilling of such well or such operations, plus 100% of the operating costs which would normally have been paid by the non-participating party or parties from the time of the completion of such well until the participating party or parties have been reimbursed to the extent of 200% as above provided. After the party or parties which shall have participated in the cost of drilling, deepening, plugging back or reworking any well to the extent above provided shall have been reimbursed for 200% of the cost which would normally have been paid by the non-participating party or parties as hereinabove provided, said well shall be operated for the joint account of the parties hereto and the unitized substances and all pipe and other equipment installed and used in connection with such well shall be owned by the parties hereto, the same as if all parties hereto had initially participated in the cost thereof; provided, however, if any such well should fail to produce or cease to produce in paying quantities before the receipt of the

reimbursement above provided for, the well may be plugged and abandoned at the sole cost, risk and expense of the participating party or parties and the latter shall be entitled to all salvage value derived from the well to the extent necessary to complete reimbursement as above provided plus the cost of plugging and abandoning such well.

If any operation carried on pursuant to the provisions of this article involves the deepening, plugging back or reworking of any non-commercial well, the participating party or parties shall pay to the non-participating party or parties a sum equal to the proportionate value (determined in accordance with Exhibit "C", after deducting the cost of recovery) of the equipment and reclaimable casing and tubing on and in any well in which said deepening, plugging back or reworking operations are to be conducted and the amount so paid shall constitute a part of the cost of the deepening, plugging back or reworking such well of which the participating party or parties shall be entitled to reimbursement out of production on the basis above provided.

The party or parties who conduct operations pursuant to this article shall comply with all valid rules and regulations and shall assume all obligations pertaining to such well or operations under the lease covering the lands on which such operations are conducted.

Notwithstanding anything expressly or implied in the foregoing to the contrary, no well shall be available for deepening or plugging back until production from the formation in which it is then completed is abandoned by mutual agreement.

ARTICLE XIV

Abandonment of Wells

No well which is producing or which has once produced shall be abandoned without the mutual consent of the parties hereto; provided, however, if the parties are unable to agree as to the abandonment of any well, the party or parties not desiring to abandon said well shall tender to the party or parties desiring to abandon the same, its proportionate share of the salvage value of the material and equipment in and on said well which value shall be determined in accordance with the accounting procedure attached hereto as Exhibit "C", less the estimated cost of salvaging and less estimated cost of plugging and abandoning. Upon the receipt of

said sum, the party or parties desiring to abandon such well shall without warranty of title, either express or implied, assign to the party or parties tendering such sum, such party or parties interest in said well and in the material and equipment therein and thereon and such party or parties shall execute transfer orders or any other instrument or instruments as may be necessary or required to permit the non-abandoning party or parties to receive the proceeds of all production from said well which may be produced from the formation or formations from which such well is then producing but only insofar as said formation or formations underlie the acreage allocated to such well under the then established spacing or proration unit established by the New Mexico Oil Conservation Commission. The party or parties not desiring to abandon any such well shall hold the other party or parties hereto free, clear and harmless from any and all liabilities or obligations arising from or growing out of the operation of such well. Such party or parties shall comply with all valid rules and regulations and shall assume all obligations under the lease upon which such well is located pertaining thereto.

ARTICLE XV

Employees

All persons engaged in operating the premises covered hereby shall be employees of the Operator and shall not be joint employees of the parties hereto. The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees shall be determined solely by Operator.

ARTICLE XVI

Delay Rentals and Shut-in Royalties

All delay rentals, shut-in gas royalties and other payments necessary to be made to maintain the leases subject hereto in force and effect shall be paid as provided in Article 11 of the unit agreement.

Each Non-Operator shall furnish Operator, not later than ten days prior to the date that such payments are due, evidence of such payments.

Operator shall promptly notify Non-Operators in writing at such time as any well drilled hereunder is shut-in for lack of market or ceases to produce for any reason.

ARTICLE XVII

Access to Premises

Each party hereto shall have, but is not limited to, the following specific rights and privileges:

(a) Access to the lands and premises at all reasonable times to inspect the work of drilling and operations;

(b) All geological and geophysical maps, charts and reports which have been obtained at the joint expense of the parties hereto;

(c) Daily drilling, well progress and casing reports;

(d) Schlumberger logs and reports and all other scientific logs and reports;

(e) Upon request, Non-Operators shall be furnished with a reasonable amount of all samples and cuttings taken and saved;

(f) Upon request, Non-Operators shall be furnished with copies of drillers logs and all other logs and records showing the formations, production indications, measurements, interpretations and other pertinent data.

(g) Upon request, Non-Operators shall be furnished with copies of all run tickets and all other records showing deliveries to the pipe line carriers or purchaser of production and deliveries into storage.

(h) The Operator agrees to consult with Non-Operators on all matters out of the ordinary and not routine in their nature to the end that the Operator shall have the benefit of the advice of the Non-Operators in handling such matters and will give due consideration thereto. Matters out of the ordinary and not routine in their nature shall include but not be limited to the prosecution of applications before regulatory bodies relative to designation of the well spacing pattern, gas-oil ratio limits and other matters pertaining to field rules.

ARTICLE XVIII

Operator's Lien

Operator shall have, and is hereby granted, a first and prior lien on the interest of Non-Operators in the lands covered hereby, and on Non-Operators' interests in the wells on such lands and all its production therefrom, and on their interest in the proceeds of all such production and the equipment and material on said lands, as security for the payment of any amount due and owing to Operator by Non-Operators under this contract. It is agreed that in the event any amount due and owing to Operator by any Non-Operator is not paid as provided herein within sixty (60) days from the due date thereof, Operator may serve written order to the purchaser or purchasers of such Non-Operator's share of such production and the service of such written order shall authorize and require such purchaser or purchasers

to pay the proceeds thereafter becoming due and owing for said production to Operator until it shall have been reimbursed to date for and on account of such Non-Operator's delinquent part of such amounts so due and owing under this agreement together with interest thereon (as herein provided) at the rate of six percent (6%) per annum.

ARTICLE XIX

Disposal of Production

Each of the parties hereto shall own and, at its own expense, shall take in kind and separately dispose of its proportionate share of all the unitized substances produced and saved from the lease acreage covered hereby, exclusive of the production that the unit Operator may use in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided, that each of the parties shall pay or secure the payment of the royalty interest on its proportionate part of the production. At such time or times as a working interest owner shall fail or refuse or take in kind or separately dispose of its proportionate part of said production, Operator shall have the authority, revocable by working interest owner at will, to sell all or part of such production to others at the same price which Operator receives for its own portion of the production. All such sales by Operator of working interest owner's production 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 any such sale be for a period in excess of one (1) year.

ARTICLE XX

Overriding Royalties and Obligations Payable out of Production

If any leasehold interest committed to the unit agreement is burdened with an overriding royalty, obligation payable out of production, or any similar encumbrance, payable in excess of the usual one-eight (1/8) royalty to the State of New Mexico, the same shall be paid out of the unitized substances allocated to the leasehold interest burdened with the same.

ARTICLE XXI

Assignability Surrender or Termination of Interests

No leased land committed to the unit agreement shall be surrendered in whole or in part unless the parties hereto mutually consent thereto. Should any

party at any time desire to surrender any lease committed to said unit agreement and the other parties should not agree or consent to such surrender, the party desiring to so surrender shall assign, without express or implied warranty of title, all of such party's interest in such lease to the Operator to be held in trust for the other parties hereto in proportion to the interest then severally held by them on an acreage basis in the unit area. If all of the parties do not desire to participate in the interest so assigned, the party or parties not desiring to participate shall notify the Operator and other parties thereof and in such case, the assignment shall be held by the Operator for the benefit of those who desire to participate in proportion to their respective interest on an acreage basis. Such assignment shall be free and clear of all liens and encumbrances and upon delivery thereof, the assigning party shall be relieved of all further obligations with respect to the lease or leases so assigned, but such assignment shall not relieve the assigning party of any obligations to the joint account incurred with respect to such lease or leases prior to the assignment thereof.

Any working interest owner shall have the right at any time while not in default of any of the provisions hereof or indebted to the joint account to be relieved of all further obligations on account of said unit agreement and the provisions hereof except the obligation to pay such party's proportionate part of the cost of any well then drilling under the provisions of the unit agreement or this agreement by assigning to the Operator all of the interest of such party in all leases committed to the unit agreement to be held in trust for the other parties hereto in proportion to the interest then severally held by them on an acreage basis. All such interests shall be assigned free and clear of all liens and encumbrances. In such event, the Operator shall pay the working interest owner desiring to be relieved of such further obligations for such party's proportionate interest in all casing, materials, equipment, fixtures and other personal property belonging to the joint account, the fair salvage value thereof determined as provided in Exhibit "C" attached hereto less estimated cost of salvaging and less estimated cost of plugging and abandoning, and the amount so paid shall be charged to the other parties in proportion to their respective participating interest.

No assignment, mortgage or other transfer affecting the respective interests

of the parties in the Contract Area, the production therefrom, or equipment thereon, shall be made unless the same shall cover the entire undivided interest of assignor, mortgagor or seller in the Contract Area; and such assignment mortgage or sale shall be made to no more than two individuals, companies, corporations or other entities, it being the intent of this provision to maintain the joint development and operation of the Contract Area; provided, that the sale of a lesser interest than the seller's entire undivided interest may be made upon securing the unanimous approval of the other party or parties hereto in writing.

ARTICLE XXII

Force Majeure

Operator shall not be liable to Non-Operators for any delay or default in performance under this agreement due to any cause beyond its control and without its fault or negligence, including but not restricted to, acts of God or the public enemy, act or request of the Federal or State Government or of any Federal or State office or agent purporting to act under authority, floods, war, fires, storms, strikes, interruption of transportation, freight embargoes or failures, exhaustion or unavailability or delays in delivery of any material, equipment or service necessary to the performance of any provision hereof, or the loss of holes, blow-outs or happening of any unforeseen accident, misfortune or casualty whereby the drilling or completion of any well hereunder is delayed or prevented.

ARTICLE XXIII

Contributions from Others

Any contribution, whether of money or property interest, toward the drilling of any well drilled on the unit area pursuant to the provisions of this agreement shall be shared in by the parties hereto in proportion to their participating interest in such well; provided, however, the provisions of this section shall not apply to the initial exploratory test wells required to be drilled pursuant to the provisions of Article IV hereof.

ARTICLE XXIV

Notices

Except as herein otherwise expressly provided, all notices, reports or other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail

or telegraph with all postage or charges fully prepaid, and addressed to the parties hereto, at the addresses set opposite their respective names, or such other addresses as may be thereafter furnished. The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States Post Office, addressed as above provided.

NAME:	ADDRESS
Phillips Petroleum Company	_____
	_____
	Attn: _____
F. J. Danglade	_____
	_____
	Attn: _____
Amerada Petroleum Corporation	_____
	_____
	Attn: _____
Gulf Oil Corporation	_____
	_____
	Attn: _____
Ohio Oil Company	_____
	_____
	Attn: _____
Skelly Oil Company	_____
	_____
	Attn: _____
Warren Petroleum Corporation	_____
	_____
	Attn: _____
Champlin Refining Company	_____
	_____
	Attn: _____

ARTICLE XXV

Laws, Rules and Regulations

All the terms and provisions of this agreement are hereby made expressly

subject to all State and Federal laws and to all valid rules and regulations of any duly constituted governmental authority having jurisdiction in the premises and it is understood that Operator shall comply with any and all such rules, laws and regulations. In the event any provision of this agreement is invalid under any applicable law, rule or regulation, such provision shall be deemed to have been deleted from this agreement and this agreement modified accordingly.

ARTICLE XXVI

Liability of Parties

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for its obligations as hereinabove set forth and shall be liable only for its proportionate share of the costs and expenses provided for hereunder. Nothing contained herein shall be construed as having created or as having been intended to create a partnership, a joint venture, an association, a trust, mining partnership or other entity.

Whenever the term "joint account" is used herein, the parties hereto use such language merely as a convenient method of referring to the accounting necessary between them, and no such phraseology shall ever be construed as creating a joint liability on the part of the parties hereto for any obligation incurred in this agreement, or as set apart or creating any fund or jointly owned property for the satisfaction of any such obligation, or as creating a common fund for any other purpose.

ARTICLE XXVII

Income Tax Election, Sub-Chapter K, Of Chapter 1 Sub-Title A Internal Revenue Code

Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all

of the returns, statements, and data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

In the event Operator executes for and on behalf of the other parties hereto any election authorized under the provisions of this section, Operator shall give notice of such election to the other parties hereto.

ARTICLE XXVIII

Effective Date and Term

This agreement shall become effective as of the effective date of the unit agreement and shall remain in full force and effect during the term of said unit agreement and any and all extensions or renewals thereof, and, in the event of the termination of the unit agreement for any reason, this agreement shall continue in full force and effect as to all wells which have not been plugged and abandoned as of the time of the termination of the unit agreement and the rights and interests of the parties hereto in such wells and their participation in the production therefrom and in the cost of the operation thereof, shall be governed by the provisions hereof and this agreement with respect thereto shall remain in full force and effect so long as any such well is capable of producing oil or gas in paying quantities.

ARTICLE XXIX

Miscellaneous Provisions

A. The terms, conditions and provisions of this agreement shall extend to

and be binding upon and inure to the benefit of the parties hereto and their successors and assigns; and this agreement shall constitute a covenant running with the lands covered hereby.

B. All property, real or personal, subject to this agreement shall be the property of the parties hereto as their interests may appear hereunder, subject, however, to the rights and powers herein granted Operator.

C. The funds received by Operator under this agreement need not be segregated by Operator or maintained by it as a joint fund but may be comingled with its own funds and distributed by Operator as provided in this agreement.

D. The captions or headings preceding the various parts or sections of this agreement are inserted and included solely for convenience and never shall be considered or given any effect in construing this contract, or any part of this contract, or in connection with the duties, obligations or liabilities of the parties hereto, or in ascertaining the intent of the parties hereto if any question of intent should arise; it being the intention of the parties that this agreement shall be construed as a whole.

E. Operator shall examine or cause to be examined the title to the leasehole estate or estates covered hereby which are to be the site of drilling operations or are the offsets thereto and shall secure the necessary curative for said title or titles. The cost and expense so incurred shall be charged to the joint account of the parties hereto.

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

ATTEST:

Myrtle L. Cruz
ASSISTANT Secretary

Date July 19, 1957

SLICK OIL CORPORATION

By _____
VICE President

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

_____
Secretary

Date _____

PHILLIPS PETROLEUM COMPANY

By: _____

ATTEST:

AMERADA PETROLEUM CORPORATION

_____
Secretary

By: _____

Date _____

ATTEST:

GULF OIL CORPORATION

_____
Secretary

By: _____

Date _____

ATTEST:

OHIO OIL COMPANY

_____
Secretary

By: _____

Date _____

ATTEST:

SKELLY OIL COMPANY

_____
Secretary

By: _____

Date _____

ATTEST:

WARREN PETROLEUM CORPORATION

_____
Secretary

By: _____

Date _____

ATTEST:

CHAMPLIN REFINING COMPANY

_____
Secretary

By: _____

Date _____

Date _____ _____

Date _____ _____

Date _____ _____
F. J. Danglade

Date _____ _____

STATE OF Texas }
} SS.
COUNTY OF Harris }

The foregoing instrument was acknowledged before me this 19th day of July, 1957 by SAMUEL E. SIMS, VICE PRESIDENT of Slick Oil Corporation, a Delaware corporation on behalf of said corporation.

My commission expires:

CHARLOTTE KOHRS, Notary Public
In and for Harris County, Texas.
My commission expires June 1, 1959.

_____ Charlotte Kohrs
Notary Public

STATE OF _____ }
} SS.
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Phillips Petroleum Company, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____ }
} SS.
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Amerada Petroleum Corporation, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____ }
} SS.
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Gulf Oil Corporation, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Ohio Oil Company, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Skelly Oil Company, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Warren Petroleum Corporation, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Champlin Refining Company, a _____ corporation on behalf of said corporation.

My commission expires:

_____ _____
Notary Public

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, and his wife, _____ _____.

My commission expires:

_____

_____
Notary Public

STATE OF _____)
) SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by F. J. Danglade.

My commission expires:

_____

_____
Notary Public

EXHIBIT "E"

Attached to and made a part of Slick Unit Operating Agreement dated July 19, 1957, Lea County, New Mexico

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 A 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 Houston office located at or near Houston, Texas (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	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
	$ 250.00	$ 50.00	$ 40.00	$ 30.00

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 carload 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.