CASE 1286: Slick Oil Corp. application for approval of SLICK UNIT AGREEMENT embracing 1,596 acres, more or less, Lea County, N.M.

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CASE 1286: Slick Oil Corp. application for approval of SLICK UNIT AGREEMENT embracing 1,596 acres, more or less, Lea County, N.M.

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Case No.

1286

Application, Transcript,
Small Exhibits, Etc.

BEFORE THE OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO

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

THE APPLICATION OF SLICK OIL CORPORATION FOR APPROVAL OF THE SLICK UNIT AGREEMENT EMBRACING 1,595.84 ACRES, MORE OR LESS, LEA COUNTY, NEW MEXICO, CONSISTING OF ALL OF SECTION 36, T. 12 S., R. 34 E., ~~LOTS 1, 2, 3, AND 4, S½N½ OF SECTION 31, T. 12 S., R. 35 E.~~, Lots 1, 2, 3, AND 4, S½N½, S½ of SECTION 1 AND LOTS 1 AND 2, S½NE¼, SE¼ OF SECTION 2, T. 13 S., R. 34 E., ~~and LOTS 3 and 4 OF SECTION 6, T. 13 S., R. 35 E.~~, N.M.P.M.

CASE NO._____

New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Comes the undersigned, the Slick Oil Corporation, with offices at Houston, Texas, and files herewith three copies of the proposed unit agreement for the development and operation of the Slick Unit Area, Lea County, New Mexico and hereby makes application for the approval of said unit agreement as provided by law, and in support thereof, shows:

1. That the proposed unit area covered by said agreement embraces 1,595.84 acres, more or less, more particularly described as follows:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

Township 12-South, Range 34-East

Section 36: All

Township 13-South, Range 34-East

Section 1: Lots 1, 2, 3, and 4, S½N½, S½
Section 2: Lots 1 and 2, S½ NE¼, SE¼

2. That the lands embraced within the proposed unit area are all State lands.

3. That applicant is informed and believes, and upon such information and belief, states: That the proposed unit area covers substantially all of the geological features involved, and in the event of the discovery of oil or gas thereon, that said unit agreement will permit the producing area to be developed and operated in the interest

of conservation and the prevention of waste of the unitized substances.

4. That the Slick Oil Corporation is designated as unit operator in said unit agreement, and as such is given authority under the terms thereof to carry on all operations necessary for the development and operation of the unit area for oil and gas, subject to all applicable laws and regulations. That said unit agreement provides for the commencement of a test well for oil and gas upon some part of the lands embraced in the unit area within 30 days from the effective date of the unit agreement and for the drilling thereof with due diligence, to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities if at a lesser depth; provided, however, operator is not required in any event to drill said well to a depth in excess of 13, 700 feet.

5. That said unit agreement is in substantially the same form as unit agreements heretofore approved by the Commissioner of Public Lands of the State of New Mexico and by the New Mexico Oil Conservation Commission, and it is believed that in the event oil or gas in paying quantities is discovered on the lands within the unit area, that the field or area can be developed more economically and efficiently under the terms of said agreement, to the end that the maximum recovery will be obtained, and that said unit agreement is in the interest of the conservation of oil and gas and the prevention of waste as contemplated by the New Mexico Oil Conservation Commission statutes.

6. That application is being made for the approval of said unit agreement by the Commissioner of Public Lands of the State of New Mexico.

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

WHEREFORE, the undersigned applicant respectfully requests

that a public hearing be held on the matter of the approval of said unit agreement and that upon said hearing, said unit agreement be approved by the New Mexico Oil Conservation Commission as being in the interest of conservation and prevention of waste.

DATED this the 13th day of JULY, 1951.

Respectfully submitted,

SLICK OIL CORPORATION

BY: _____

VICE PRESIDENT

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 1286
Order No. R-1030

THE APPLICATION OF SLICK OIL
CORPORATION FOR THE APPROVAL
OF SLICK UNIT AGREEMENT EMBRACING
1596 - ACRES, MORE OR LESS, LOCATED IN
TOWNSHIPS 12 AND 13 SOUTH, RANGE 34
EAST, NMPM, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 o'clock a.m. on August 7, 1957, at Hobbs, New Mexico, before Warren W. Mankin, Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission" in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this 14th., day of August, 1957, the Commission a quorum being present, having considered the application, the evidence adduced and the recommendations of the Examiner Warren W. Mankin, and being fully advised in the premises,

FINDS:

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

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

IT IS THEREFORE ORDERED:

1. That this order shall be known as the

SLICK UNIT AGREEMENT ORDER

2. (a) That the project herein referred to shall be known as the Slick Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Slick Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the Slick Unit Agreement Plan

3. (a) That the Slick Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing in any manner any right, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said Slick Unit Agreement, or relative to the production of oil and gas therefrom.

(b) That the unit operator periodically shall file with the Commission a Slick Unit Statement of Progress, summarizing operations for the exploration and development of any lands committed to said Slick Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the unit agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the Slick Unit Area.

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

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 12 SOUTH, RANGE 34 EAST
Section 36: All

TOWNSHIP 13 SOUTH, RANGE 34 EAST
Section 1: Lots 1, 2, 3 & 4, S/2 N/2 & S/2
Section 2: Lots 1 & 2, S/2 NE/4 & SE/4

containing 1596 acres more or less.

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

6. That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may there after become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days days an original of any such counterpart or ratification.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EDWIN L. MECHEM, Chairman

MURRAY E. MORGAN, Member

A. L. PORTER, Jr., Member & Secretary

S E A L

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DOMESTIC SERVICE

Check the class of service desired; otherwise this message will be sent as a fast telegram

TELEGRAM	
DAY LETTER	
NIGHT LETTER	

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E

WESTERN UNION
TELEGRAM

1206 (4-53)

W. P. MARSHALL, PRESIDENT

INTERNATIONAL SERVICE

Check the class of service desired; otherwise the message will be sent at the full rate

FULL RATE	
LETTER TELEGRAM	
SHORE SHIP	

NO. WDS.-CL. OF SVC.	PD. OR COLL.	CASH NO.	CHARGE TO THE ACCOUNT OF	TIME FILED
	COLLECT			11:00 A.M.

Send the following message, subject to the terms on back hereof, which are hereby agreed to

SLICK OIL CORP.
1030 BANK OF THE SOUTHWEST BLDG.
HOUSTON, TEXAS

AUGUST 8, 1957

ATTENTION: MR. SAMUEL E. SIMS, VICE PRESIDENT

SLICK UNIT AGREEMENT APPROVED AS HEARD IN CASE 1286.

A. L. PORTER, JR.
OIL CONSERVATION COMMISSION

ALL MESSAGES TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING TERMS:

To guard against mistakes or delays, the sender of a message should order it repeated, that is, telegraphed back to the originating office for comparison. For this one-half the unrepeated message rate is charged in addition. Unless otherwise indicated on its face, this is an unrepeated message and paid for as such. In consideration whereof it is agreed between the sender of the message and the Telegraph Company as follows:

1. The Telegraph Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any message received for transmission at the unrepeated-message rate beyond the sum of five hundred dollars; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any message received for transmission at the repeated-message rate beyond the sum of five thousand dollars, unless specially valued; nor in any case for delays arising from unavoidable interruption in the working of its lines.

2. In any event the Telegraph Company shall not be liable for damages for mistakes or delays in the transmission or delivery, or for the non-delivery, of any message, whether caused by the negligence of its servants or otherwise, beyond the actual loss, not exceeding in any event the sum of five thousand dollars, at which amount the sender of each message represents that the message is valued, unless a greater value is stated in writing by the sender thereof at the time the message is tendered for transmission, and unless the repeated-message rate is paid or agreed to be paid and an additional charge equal to one-tenth of one per cent of the amount by which such valuation shall exceed five thousand dollars.

3. The Telegraph Company is hereby made the agent of the sender, without liability, to forward this message over the lines of any other company when necessary to reach its destination.

4. The applicable tariff charges on a message destined to any point in the continental United States listed in the Telegraph Company's Directory of Stations cover its delivery within the established city or community limits of the destination point. Beyond such limits and to points not listed in the Telegraph Company's Directory of Stations, the Telegraph Company does not undertake to make delivery but will endeavor to arrange for delivery by any available means as the agent of the sender, with the understanding that the sender authorizes the collection of any additional charge from the addressee and agrees to pay such additional charge if it is not collected from the addressee.

5. No responsibility attaches to the Telegraph Company concerning messages until the same are accepted at one of its transmitting offices; and if a message is sent to such office by one of the Telegraph Company's messengers, he acts for that purpose as the agent of the sender; except that when the Telegraph Company sends a messenger to pick up a message, the messenger in that instance acts as the agent of the Telegraph Company in accepting the message, the Telegraph Company assuming responsibility from the time of such acceptance.

6. The Telegraph Company will not be liable for damages or statutory penalties when the claim is not presented in writing to the Telegraph Company, (a) within ninety days after the message is filed with the Telegraph Company for transmission in the case of a message between points within the United States (except in the case of an intrastate message in Texas) or between a point in the United States on the one hand and a point in Alaska, Canada, Mexico, or St. Pierre-Miquelon Islands on the other hand, or between a point in the United States and a ship at sea or in the air, (b) within 35 days after the cause of action, if any, shall have accrued in the case of an intrastate message in Texas, and (c) within 180 days after the message is filed with the Telegraph Company for transmission in the case of a message between a point in the United States and a foreign or overseas point other than the points specified above in this paragraph; provided, however, that this condition shall not apply to claims for damages or overcharges within the purview of Section 415 of the Communications Act of 1934, as amended.

7. It is agreed that in any action by the Telegraph Company to recover the tolls for any message or messages the prompt and correct transmission and delivery thereof shall be presumed, subject to rebuttal by competent evidence.

8. Special terms governing the transmission of messages according to their classes, as enumerated below, shall apply to messages in each of such respective classes in addition to all the foregoing terms.

9. No employee of the Telegraph Company is authorized to vary the foregoing.

6-54

CLASSES OF SERVICE

DOMESTIC SERVICES

TELEGRAM

The fastest domestic service.

DAY LETTER (DL)

A deferred same-day service, at low rates.

NIGHT LETTER (NL)

Economical overnight service. Accepted up to 2 A. M. for delivery the following morning; at rates lower than the Telegram or Day Letter rates.

INTERNATIONAL SERVICES

FULL RATE (FR)

The fastest overseas service. May be written in code, cipher, or in any language expressed in Roman letters.

LETTER TELEGRAM (LT)

For overnight plain language messages, at half-rate. Minimum charge for 22 words applies.

SHIP RADIOGRAM

For messages to and from ships at sea.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

CASE NO. 1286
Order No. R-1030

THE APPLICATION OF SLICK OIL
CORPORATION FOR THE APPROVAL
OF SLICK UNIT AGREEMENT EMBRACING
1596 ACRES, MORE OR LESS, LOCATED
IN TOWNSHIPS 12 AND 13 SOUTH, RANGE
34 EAST, NMPM, LEA COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 o'clock a.m. on August 7, 1957, at Hobbs, New Mexico, before Warren W. Mankin, Examiner, duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission," in accordance with Rule 1214 of the Commission's Rules and Regulations.

NOW, on this 14th day of August, 1957, the Commission, a quorum being present, having considered the application, the evidence adduced, and the recommendations of the Examiner, Warren W. Mankin, and being fully advised in the premises,

FINDS:

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

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

IT IS THEREFORE ORDERED:

1. That this order shall be known as the

SLICK UNIT AGREEMENT ORDER

2. (a) That the project herein referred to shall be known as the Slick Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Slick Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the Slick Unit Agreement Plan.

3. (a) That the Slick Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing in any manner any right, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of operations for exploration and development of any lands committed to said Slick Unit Agreement, or relative to the production of oil and gas therefrom.

(b) That the unit operator periodically shall file with the Commission a Slick Unit Statement of Progress, summarizing operations for the exploration and development of any lands committed to said Slick Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the unit agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the Slick Unit Area.

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

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 12 SOUTH, RANGE 34 EAST
Section 36: All

TOWNSHIP 13 SOUTH, RANGE 34 EAST
Section 1: Lots 1, 2, 3 and 4, S/2 N/2 & S/2
Section 2: Lots 1 and 2, S/2 NE/4 & SE/4

containing 1596 acres more or less.

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

6. That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EDWIN L. MECHEM, Chairman

MURRAY E. MORGAN, Member

A. L. PORTER, Jr., Member & Secretary

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BEFORE THE
OIL CONSERVATION COMMISSION
MOBBS, NEW MEXICO

IN THE MATTER OF:

Case 1286

TRANSCRIPT OF PROCEEDINGS

August 7, 1957

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE, NEW MEXICO
3-6691 5-9546

Page_____

NEW MEXICO OIL CONSERVATION COMMISSION

1000 N. Broadway

_____, NEW MEXICO

REGISTER

HEARING DATE Examiner August , 1957 TIME: 9:00 a.m.

NAME:	REPRESENTING:	LOCATION:
[illegible]	[illegible]	[illegible]
W. A. Bamberg	Slick Oil Corporation	Houston, Texas
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	Continental Oil Company	"
[illegible]		
[illegible]		
[illegible]		Hobbs New Mexico
[illegible]		Hobbs New Mex
[illegible]		[illegible]
[illegible]		[illegible]
[illegible]		[illegible]
A. R. Palmer	Shell Oil Co.	Hobbs, N. Mex.
Jason Kellahin	Continental	Santa Fe, N. M.
W. J. Bolley	[illegible]	[illegible]

ILLEGIBLE

BEFORE THE
OIL CONSERVATION COMMISSION
HOBBS, NEW MEXICO
August 7, 1957

IN THE MATTER OF:

CASE 1286: Application of Slick Oil Corporation for approval of the Slick Unit Agreement embracing 1,596 acres, more or less, in Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Slick Unit Agreement embracing 1,596 acres, more or less, of State of New Mexico Lands described as:

Township 18 South, Range 34 East
Section 36: All

Township 19 South, Range 34 East
Section 1: Lots 1, 2, 3, & 4, S/2 N/2, S/2
Section 2: Lots 1 & 2, S/2 NE/4, SE/4

all in Lea County, New Mexico.

Oil Conservation Commission
Office
1000 West Broadway
Hobbs, New Mexico

BEFORE:
WARREN W. MANKIN, Examiner

TRANSCRIPT OF HEARING

MR. MANKIN: The hearing will come to order. First case on the docket today is Case 1286.

MR. COOLEY: 1286. Application of Slick Oil Corporation for approval of the Slick Unit Agreement embracing 1,596 acres, more

of Texas, in the County, and State. ,Warren

Mr. Barneburg, how many witnesses will you have?

MR. BARNEBURG: Two. Myself and Mr. [illegible], geologist.

(Witnesses sworn.)

DIRECT EXAMINATION

BY MR. COOLEY:

Q State your full name and position, please.

A Warren C. Barneburg, Land Agent for Slick Oil Corporation.

Q Mr. Barneburg, have you previously testified before this Commission?

A No, I haven't.

Q Would you give us a brief resume of your education and experience, and background?

A I am employed by Slick Oil Corporation in the capacity as Land Agent. The standard duties of a Land Agent are well known in the industry, leasing and preparing agreements and so forth.

MR. COOLEY: Are the witness's qualifications acceptable?

MR. MANKIN: Yes.

MR. COOLEY: Have you also a legal background?

A No, I do not.

MR. COOLEY: You may proceed if you have a prepared statement, Mr. Barneburg.

A I have here a fully executed copy of the Unit Agreement For The Development And Operation Of The Slick Unit Area Lea County, New Mexico. This agreement has been executed in counter parts. It

was approved as to form and contents by the Land Office on July 15, 1957. We feel that the approval of this unit agreement would be for the best interest of the State of New Mexico, and that it will promote the conservation of the petroleum products. We request that this unit agreement be approved.

Q Do you have a copy of the unit agreement that you can submit as an exhibit? The unit agreement that was submitted with the application, the document which you wish to have approved.

A There has been one minor change to the document, as previously submitted, in that there has been inserted a Paragraph 8B. Would you care to have me read that paragraph?

Q Please do so.

A Paragraph 8B. "Without impairing the right of the Commissioner to terminate this agreement where provided for herein, Paragraphs 8 and 8A hereof shall not be construed to require any party, without its consent, to participate in or be liable for all or a portion of the cost of drilling any well. The expense of drilling the initial test well shall be borne as provided for in the Unit Operating Agreement. During the subsequent wells, where all parties do not agree to participate therein,--"

Q Let me interrupt you--

A (Continuing) -- Drilling of subsequent wells, where all parties do not agree to participate therein, shall be conducted in accordance with the provisions of Article VIII of the Unit Operating Agreement." This paragraph was submitted to the Land Office

[illegible] approval of the insertion of Paragraph 32.

Mr. Barneburg, do you have a copy of the Unit Operating Agreement which you were referring to in 32 of the Unit Agreement?

A Yes, I do.

Q Would you please identify that as Exhibit [illegible] in this case.

A (Witness complies.)

MR. MANKIN: Are there objections to entering Exhibit [illegible], which is the Unit Operating Agreement in this case, in evidence?

(No response.)

MR. MANKIN: If not, it will be so received. Do you have anything further, Mr. Barneburg?

A Nothing further.

EXAMINATION

BY MR. MANKIN:

Q You referred to the Unit Agreement being approved as to form, and I believe content?

A Yes.

Q By the State Land Office? A Yes.

Q What date?

A July 15, 1957.

Q And you also referred to an amendment by the State Land Office, and with the insertion of Paragraph 32, which you read. That was also inserted and sent to you as of August the 5th, or have you received that as of that date?

A I have not received that copy of the letter, however, I was informed that such a letter was in addition. We have received verbal approval of Paragraph 28 on August the 1st.

Q You indicated you had signed copies of the Unit Agreement. Would that include all of the working interest owners--working and interest owners of this--

A (Interrupting) Yes, sir, it does include that.

Q Well, can you indicate who those working interest owners are?

A Yes. Would you like it described as in Lea?

Q No, just the names.

A Phillips Petroleum Company, F. J. Langlade--

THE REPORTER: Please spell that.

A D-a-n-g-l-a-d-e, Amerada Petroleum Corporation, Gulf Oil Corporation, the Ohio Oil Company, Kelly Oil Company, Warren Petroleum Corporation, Champlin Oil and Refining Company.

Q Alright, sir, and those persons that you have just listed have already signed this Unit Agreement?

A Yes.

Q And you have not got the signature of the State Land Office, but you have got the approval as to form and content?

A Yes.

Q That approval will be submitted to this Commission?

A Yes, sir.

BY MR. COOLEY:

Q The interest owners are independent of the State of New Mexico?

A Yes.

Q In Paragraph 2, in Drilling to Discovery--Paragraph 3 of the Unit Agreement,--

A (Interrupting) Yes.

Q (Continuing) --reads as follows: 'Drilling to Discovery. The Unit Operator shall, within blank days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas," et cetera, et cetera,--

A (Interrupting) Yes.

Q (Continuing) What figure is to be inserted in this blank space?

A The effective date of the agreement is July 19, 1957. We have inserted the figure, "22 days."

Q 22 days. Now, Paragraph 3 will read: 'The Unit Operator shall, within 22 days after the effective date of this agreement."

A That is right.

BY MR. MANKIN:

Q Then, this 22 days will take the place of the 30 days, as is shown on one of the copies of the Unit Agreement?

A That is correct. That was necessary in order so that the well could be commenced prior to the expiration of the earliest lease that is contained in the Unit. The earliest lease expiration date is August the 11th, 1957. 22 days will make it to August the 10th.

A No, with the termination [illegible], Continental Oil Corporation desired an early decision in the case so that drilling operations may commence?

A We would appreciate the earliest possible decision.

Q Then the intentions to drill, which was submitted on this well, dated July 25, to be located in the northeast quarter of the northwest quarter of Section 1, in Township 19 South, Range 34 East, that well has not yet been commenced?

A No, it has not yet been commenced.

Q But it will be commenced prior to this expiration date?

A Yes, sir, it will. Subject, of course, to the approval of the Land Commissioner and of the Oil Conservation Commissioner.

Q The Unit Agreement contains the standard clause, that in the event portions of a lease is contained in the Unit Agreement, that a well drilled inside the unit, but not on the lease to which I refer, we'll call it the 1-A Lease, will extend only to that portion of the lease that is inside the unit?

A Yes, sir, it does. The agreement contains the usual Segregation Clause, to which you are referring to.

Q And in the event the well is drilled on the lease, a portion of which is inside, and a portion which is outside, the entire lease would be extended. That is a hypothetical 1-A Lease, is half in and half out, and the well is drilled on the 1-A Lease, inside the unit, would it not extend the entire lease?

There has been considerable confusion on what constitutes a

[illegible] Segregation Clause, [illegible] I [illegible] this

thing up.

Q Mr. [illegible], is it not true, as you [illegible] knowledge, that all leases inside this unit [illegible] separate and distinct from any other leases; in other words, it does not [illegible] a lease by this unit line?

A No, that is not true. I am sure that one of the [illegible] is split by the unit line.

Q So, it would, the Segregation Clause would be an important aspect of this--

A (Interrupting) Yes, it would. I would like to read from Paragraph 12, Page 10, of the Unit Agreement.

MR. COOLEY: Page 10? A Yes.

MR. COOLEY: My copy doesn't go to Page 10. Are you talking about the Operating Agreement?

A No, the Unit Agreement. You are looking at the Operating Agreement, are you not?

MR. MANKIN: I believe so.

MR. COOLEY: Mine is on Page 10 at the bottom of that page, Paragraph 13.

A This agreement, of course, [illegible] since the copy was presented to you.

MR. COOLEY: It is Paragraph [illegible].

A Paragraph 12, yes, sir.

MR. COOLEY: Last Paragraph in the [illegible].

[illegible] of its lands committed hereto shall be segregated [illegible] the portion committed hereto and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing [illegible] of the effective date hereof." Shall I go on?

MR. DOOLEY: I think my answer lies in the next paragraph, "Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement." I have no further questions.

MR. MANKIN: Are there any further questions of Mr. Barneburg?

(No response.)

MR. MANKIN: Are there any statements to be made in this case?

(No response.)

MR. MANKIN: If not, Mr. Barneburg, you may be excused.

(Witness excused.)

S A M U E L A. D I M E

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. COOLEY:

[illegible]

A Harold [illegible] Sims, Vice-President of Slick Oil Corporation.

Q Mr. Sims, will you be testifying as an engineer, or geological questions that involve [illegible] knowledge?

A As a geologist and geophysicist, not as an engineer.

Q Would you please give us your education background and what experience you have had as a geologists and geophysicist?

A I have had some twenty-two year's experience as a geophysicist, and in geology I attended the University of Houston, in which I have received a Geophysical Degree, Bachelor of Science Degree in Geology.

MR. COOLEY: Are the witness's qualifications acceptable?

MR. MANKIN: They are.

Q (By Mr. Cooley) Could you present, Mr. Sims, in your geological testimony--and I believe you have prepared a geology report, have you not?

A We have to offer in evidence a seismic study, Exhibit 2, shall I mark it for you?

MR. COOLEY: We will do it now.

(Marked for identification Slick Oil Corporation's Exhibit 2).

A Exhibit 2, which comprises of two maps, being seismic structure maps, one being a structure map at the level of the lower Pennsylvania. The other being a seismic structure map on the

apparent upper Mississippi contact. [illegible] indicate structural closures on both horizons in excess of a hundred and fifty feet, and the area of the unit covers the approximate outline of the structure map, so we believe that the drilling of this well will aid in the conservation of hydrocarbons produced as specified in this lease and unit.

MR. COOPER: Does that conclude your statement, Mr. Sims?

A Yes, sir, it does.

EXAMINATION

BY MR. PAYNE:

Q Mr. Sims, this seismic picture you have presented, in the bottom, or lower Pennsylvanian and upper Mississippian, that includes a larger area--seismic work--which was performed by the Slick or by some company for Slick Oil Corporation?

A This was prepared for us by the Empire Geophysical Corporation. It embraces a larger area than is shown in the unit.

Q Where is the nearest production, to this area, which you have in question here, the nearest comparable production?

A The Phillips Petroleum Corporation has a production in the field, whose name I do not know, approximately one mile north of the unit.

Q That would be the Ranger Lake--Ranger Unit?

A I understand it to be a Ranger mine, but I do not know the precise name.

Q Do you recall what horizon it is producing from?

[illegible]

[illegible] Yes.

Q Would that production come from the Devonian?

A Those wells have not all reached the Devonian. One of them had been a well which did go to the Devonian in the unit field.

Q There has been at least one dual well, a tangox well, that went to the Devonian? A Yes.

Q That compares structurally to this, so it is a separate structure?

A It is our belief that it is a separate structure, based on the seismic difference.

Q I notice from your seismic picture, both, on the lower Pennsylvanian and upper Mississippian, that you have closures, as you mentioned, of some hundred and fifty feet, was it not?

A We believe a hundred and fifty feet, yes, sir.

Q There is some area that is not taken into this unit, such as portions of Section 35, Emerald, and Lion, and in Section 6, portions of Tide Water, and Mendoo. Do you feel that what you have here is a realistic picture as you now see it from the seismic picture? A Yes, sir.

Q Do you know whether there is a provision where the unit can be expanded, if necessary?

A There is not one now in the unit agreement to my knowledge,

sir.

Q Well, the discovery I meant. The unit [illegible] would be drilled in Lot [illegible] of Section 1, of Township 19 South, Range 34 East, is somewhere near the crest of the structure as mapped here?

A I believe it to be so, sir.

Q From the geological report which you submitted with the application, I don't believe that you mentioned what possible productive horizon you feel would be found in the area. Would you relate those possible productive horizons?

A We have expectations of being able to secure production from the Pennsylvanian, and possibly the Mississippian, and the Devonian, if our structure map is correct.

Q Those three deeper horizons are what you feel may be productive?

A Those are our primary objectives, and we believe that reservoir is rock free in the area, may also be found productive in this area.

Q Other shallow zones?

A Yes, on other shallow zones.

Q All formations underlying the unit area are unitized by this agreement? A That is correct, sir.

Q Mr. Sims, you feel that the area which you are attempting to drill in this unit should be oil productive rather than gas productive?

A I would say statistically yes, it should be all productive.

You have no reason to believe of any other nearby pools, in either of the three principal zones that might be found primarily gas productive rather than oil productive.

A No, I do not, sir.

MR. FISCHER: Do you have any geological facts that you have used to suspect that possibly this area will be productive in the Devonian Formation, which is a larger lake, if it was dry?

A No geological data other that seismic data, sir. There were certain indications in the seismic data, which we indicated to us that this area would be higher than those, than that well which reached the Devonian in the field to the north.

MR. FISCHER: And the average ridge that you have outside the unit, that is within the closed contours, do you feel that it is likely to be as productive as, say, a portion unit, say the northeast quarter of Section 36?

A We do so.

MR. FISCHER: However you did not include them in the unit

A In the northeast quarter of 36.

MR. FISCHER: Yes. If the northeast quarter was included in the unit, however, there are areas outside the unit that are in an equally, favorably structural position, they are not included; namely, the western portion of section 6, and the western portion of Section 36. Was there some particular reason for disregarding those.

A No, sir. There was no structural reason for disregarding them. Our conception of the structure is that it is well within t...

limits of the unit described.

MR. FISCHER: That is all.

MR. MANKIN: Any further questions of Mr. Fischer?

(No response.)

MR. MANKIN: Mr. Cooley.

MR. COOLEY: No further questions.

MR. MANKIN: I believe that is all, the witness may be excused. First, I don't believe we put in Exhibit 2 in evidence. Would you like to have Exhibit 2 put in evidence in this case?

A If you please, Mr. Examiner. That Exhibit 2 consists of two portions. One of the colorful map on the Pennsylvanian, and one of the upper Mississippian.

MR. MANKIN: Are there any objections to entering Exhibit 2 in evidence?

(No response.)

MR. MANKIN: If not, it will be so received. Is there anything further in this case?

(No response)

MR. MANKIN: Are there any statements to be made?

(No response)

MR. MANKIN: If there is nothing further we will take the case under advisement.

(Witness excused.)

REPORTER'S CERTIFICATE

STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

I, ROBERT V. MEIER, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify the foregoing and attached Transcript of Proceedings before the Oil Conservation Commission Examiner, for the State of New Mexico was reported by me in stenotype and reduced to typewritten transcript by me, and that same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this 9th day of August, 1957.

Robert V. Meier
Notary Public - Court Reporter

My Commission expires

February 7, 1961

I do Hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 1278, heard by me on August 1, 1957.

[illegible], Examiner
New Mexico Oil Conservation Commission

NEW ! KICO OIL CONSERVATION COMM ION
Santa Fe, New Mexico

Form C-101
Revised (12/1/55)

NOTICE OF INTENTION TO DRILL

1286

Notice must be given to the District Office of the Oil Conservation Commission and approval obtained before drilling or recompletion begins. If changes in the proposed plan are considered advisable, a copy of this notice [illegible] changes will be returned to the sender. Submit this notice in [illegible] copy will be returned following approval. See additional instructions in Rules and Regulations of the Commission. If State Land submit 6 Copies Attach Form C-128 in triplicate to first 3 copies of form C-101

[illegible] (Place) (Date)

OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

Gentlemen:

You are hereby notified that it is our intention to commence the Drilling of a well to be known as

[illegible] (Company or Operator)

[illegible] (Lease), Well No. 1, in [illegible] (Unit). The well is

located [illegible] feet from the West line and 648.8 feet from the [illegible] line of Section 1, T. 12S, R. 34E, NMPM.

(GIVE LOCATION FROM SECTION LINE) Wildcat Pool, Lea County

If State Land the Oil and Gas Lease is No. E-1002

If patented land the owner is --

Address --

We propose to drill well with drilling equipment as follows: Rotary

The status of plugging bond is Is posted and approved by Oil Conservation as of 7-23-57.

Drilling Contractor To be furnished

We intend to complete this well in the Devonian formation at an approximate depth of 13,700 feet.

D	C	B	A
E	F	G	H
L	K	J	I
M	N	O	P

CASING PROGRAM

We propose to use the following strings of Casing and to cement them as indicated:

Size of Hole	Size of Casing	Weight per Foot	New or Second Hand	Depth	Sacks Cement
	13-3/8	48#	New	350	
	9-5/8	36# & 40#	New	4,500	
	5-1/2	17#, 20#, 23#	New	13,700	

If changes in the above plans become advisable we will notify you immediately.

ADDITIONAL INFORMATION (If recompletion give full details of proposed plan of work.)

Approved ..... 19.....
Except as follows:

OIL CONSERVATION COMMISSION

By .....

Sincerely yours,

KICK OIL CORPORATION
(Company or Operator)

By .....

Position Agent - Production Mgr.
Send Communications regarding well to

Name Kick Oil Corporation

Address [illegible]

ILLEGIBLE

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

August 19, 1957

COPY

Mr. Samuel E. Sims
Slick Oil Corporation
1030 Bank of the Southwest Bldg.
Houston, Texas

Dear Sir:

We enclose two copies of Order R-1030 issued August 14, 1957, by the Oil Conservation Commission in Case 1286, which was heard on August 7th at Hobbs before an Examiner.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

MAIN OFFICE OCC
1957 AUG 13 AM 8:15

File 1286

August 9, 1957

In reply refer to:
Unit Division

Slick Oil Corporation
1030 Bank of the Southwest Building
Houston 2, Texas

Re: Slick Unit -
Lea County, N. Mex.

Attention: Mr. W. C. Barneburg

Gentlemen:

Your Slick Unit Agreement (New Mexico Oil Conservation Commission Case No. 1286, approved by telegram on August 8, 1957) has been approved by the Commissioner of Public Lands as of August 9, 1957.

One copy of the approved agreement is enclosed herewith and one copy given to Mr. R. H. Northington, of the Phillips Petroleum Company, who has been issued a temporary receipt in acknowledgment of his payment of the fifteen dollars ($15.00) to cover the filing fee. The Official Receipt for this amount will be mailed to you as soon as it is issued.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By: Ted Bilberry, Supervisor
Oil and Gas Department

MEM:MR/m
Enc: 1

cc: OCC-Santa Fe

MAIN OFFICE OCC

1957 AUG 5 AM 8:23

August 5, 1957

In reply refer to:
Unit Division

Slick Oil Corporation
1030 Bank of the Southwest Building
Houston, Texas

Re: Proposed Unit Agreement for the
Slick Unit Area -
Lea County, New Mexico

Attention: Mr. W. C. Barneburg

Gentlemen:

In regard to your letter of August 1, 1957, and our telephone conversation of July 31, 1957, we have inserted copies of Paragraph 8B into your Unit Agreement and have handed to the New Mexico Oil Conservation Commission copies of the paragraph, notifying them that this insertion has been approved by our attorney, Mr. Oscar Jordan.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By: Ted Bilberry, Supervisor
Oil and Gas Department

MEM:MMR/m

cc: OCC-Santa Fe

July 15, 1957

In reply refer to:
Unit Division

Slick Oil Corporation
1000 Bank of the Southwest
Houston, Texas

Attention: Mr. W. C. Barneburg
Land Agent

Re: Proposed Unit Agreement
for the Slick Unit Area -
Lea County, New Mexico

Gentlemen:

We are handing you herewith one copy of the Proposed Unit Agreement for the Slick Unit Area, which has been approved as to form and context by the Commissioner of Public Lands on July 15, 1957.

Very truly yours,

MURRAY E. MORGAN
Commissioner of Public Lands

By: Ted Bilberry, Supervisor
Oil and Gas Department

MEM:MMR/m
enc: 1

cc: OCC-Santa Fe

No 23-57

DOCKET: EXAMINER HEARING AUGUST 7, 1957

NEW MEXICO OIL CONSERVATION COMMISSION 9:00 a.m., HOBBS, NEW MEXICO

Oil Conservation Commission Office, 1000 W. Broadway, Hobbs, New Mexico

The following cases will be heard before Warren W. Mankin, Examiner:

CASE 1286: Application of Slick Oil Corporation for approval of the Slick Unit Agreement embracing 1,596 acres, more or less, in Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Slick Unit Agreement embracing 1,596 acres, more or less, of State of New Mexico Lands described as:

Township 12 South, Range 34 East
Section 36: All

Township 13 South, Range 34 East
Section 1: Lots 1, 2, 3, & 4, S/2 N/2, S/2
Section 2: Lots 1 & 2, S/2 NE/4, SE/4

all in Lea County, New Mexico.

CASE 1287: Application of Continental Oil Company for an order authorizing the production of more than eight oil wells into a common tank battery on its Reed "A-3" Lease in the Eumont Gas Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing it to produce all oil wells presently drilled, or hereafter completed, in the Eumont Gas Pool within the boundaries of its Reed "A-3" Lease into a common tank battery located in the NW/4 of Section 3, Township 20 South, Range 36 East, Lea County, New Mexico. The said Reed "A-3" Lease consists of the S/2, NW/4, S/2 NE/4, and NE/4 NE/4 of said Section 3.

CASE 1288: Application of Continental Oil Company for an order authorizing the production of more than eight oil wells into a common tank battery in the Southeast Monument Unit, Warren-McKee Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing it to produce all wells presently drilled, or hereafter completed, in the Warren-McKee Pool within the boundaries of the Southeast Monument Unit into a common tank battery located in the SW/4 of Section 20, Township 20 South, Range 38 East, Lea County, New Mexico. The said Southeast Monument Unit covers lands located in Sections 13, 14, 15, 22, 23, 24, 25, 26, and 27, Township 20 South, Range 37 East, and Sections 19, 20, 29, and 30, Township 20 South, Range 38 East, Lea County, New Mexico.

CASE 1289: Application of Shell Oil Company for the establishment of a 160-acre non-standard gas proration unit in the Tubb Gas Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order establishing a 160-acre non-standard gas proration unit in the Tubb Gas Pool consisting of the S/2 SW/4, NE/4 SW/4, and the SW/4 SE/4 Section 3, Township 21 South, Range 37 East, said unit to be dedicated to the applicant's Livingston No. 2 Well located 660 feet from the South line and 1980 feet from the East line of said Section 3.

CASE 1290: Application of Shell Oil Company for the establishment of a 200-acre non-standard gas proration unit in the Eumont Gas Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing a 200-acre non-standard gas proration unit in the Eumont Gas Pool consisting of the NE/4 and the NE/4 SE/4 Section 24, Township 21 South, Range 35 East, Lea County, New Mexico, said unit to be dedicated to the applicant's State "C" No. 2 Well located 1650 feet from the North line and 330 feet from the East line of said Section 24.

ir/

WWM 8/8/57

Rough draft for unit agreement orders.

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

Bobbie

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

CASE NO. 1286
Order No. R-1030

THE APPLICATION OF Slick Oil Corporation
FOR THE APPROVAL OF Slick ~~Unit~~ UNIT
AGREEMENT EMBRACING 1596 ACRES, MORE OR LESS, LOCATED IN TOWNSHIPS 12 and 13 South, RANGE 34 E., NMPM, Lea COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 o'clock A m. on August 7 1957 at Hobbs New Mexico, before Warren W. Mankin Examiner duly appointed by the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission", in accordance with Rule 1214 of the Commission Rules and Regulations.

NOW, on this ____ day of August 1957, the Commission a quorum being present, having considered the application the evidence adduced, and the recommendations of the Examiner Warren W. Mankin, and being fully advised in the premises,

FINDS:

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

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

IT IS THEREFORE ORDERED:

1. That this order shall be known as the Slick UNIT AGREEMENT ORDER

2. (a) That the project herein referred to shall be known as the Slick Unit Agreement and shall hereinafter be referred to as the "Project."

(b) That the Plan by which the project shall be operated shall be embraced in the form of a unit agreement for the development and operation of the Slick Unit Area, referred to in the Petitioner's petition and filed with said petition, and such plan shall be known as the Slick Unit Agreement Plan.

Use letter (a) only if Paragraph 3(b) is used.

3. (a) That the Slick Unit Agreement Plan shall be, and hereby is, approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing in any manner any right, duties or obligations which are now, or may hereafter, be vested in the New Mexico Oil Conservation Commission by law relative to the supervision and control of

operations for exploration and development of any lands committed to said Slick Unit Agreement, or relative to the production of oil and gas therefrom.

(b) That the unit operator periodically shall file with the Commission a Slick Unit Statement of Progress, summarizing operations for the exploration and development of any lands committed to said Slick Unit Agreement. This statement of progress shall be filed within 30 days after the expiration of each six-months period during the term of the unit agreement, and shall contain such pertinent data as may be necessary for the Commission to determine the progress being made in the Slick Unit Area.

Usually only if no reference acreage is included.

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

NEW MEXICO PRINCIPAL MERIDIAN

TOWNSHIP 12 South RANGE 34 East

Section 36 all

Township 13 South, Range 34 East

Section 1: Lots 1, 2, 3 & 4, S/2N/2 & S/2

Section 2: Lots 1 & 2, S/2NE/4 & SE/4

containing 1596 acres more or less.

(b) The unit area may be enlarged or contracted as provided in said Plan. (Omit if Agreement does not so provide.)

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

6. That any party owning rights in the unitized substances who does not commit such rights to said unit agreement before the effective date thereof may thereafter become a party thereto by subscribing to such agreement or counterpart thereof, or by ratifying the same. The unit operator shall file with the Commission within 30 days an original of any such counterpart or ratification.

7. That this Order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands of New Mexico and shall terminate ipso facto upon the termination of said unit agreement. The last unit operator shall immediately notify the Commission in writing of such termination.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

Macham, Chairman

Morgan, Member

Parker, Member & Secretary

SEAL

Form C-128
Revised 5/1/57

NEW MEXICO OIL CONSERVATION COMMISSION

Well Location and Acreage Dedication Plat

Section A.

Date July 19, 1957

Operator Slick Oil Corporation et al Lease Slick Unit #1 State of NM E-1865

Well No. 1 Unit Letter C Section 1 Township 13 South Range 34 East NMPM

Located 643.8 Feet From North Line, 1980 Feet From West Line

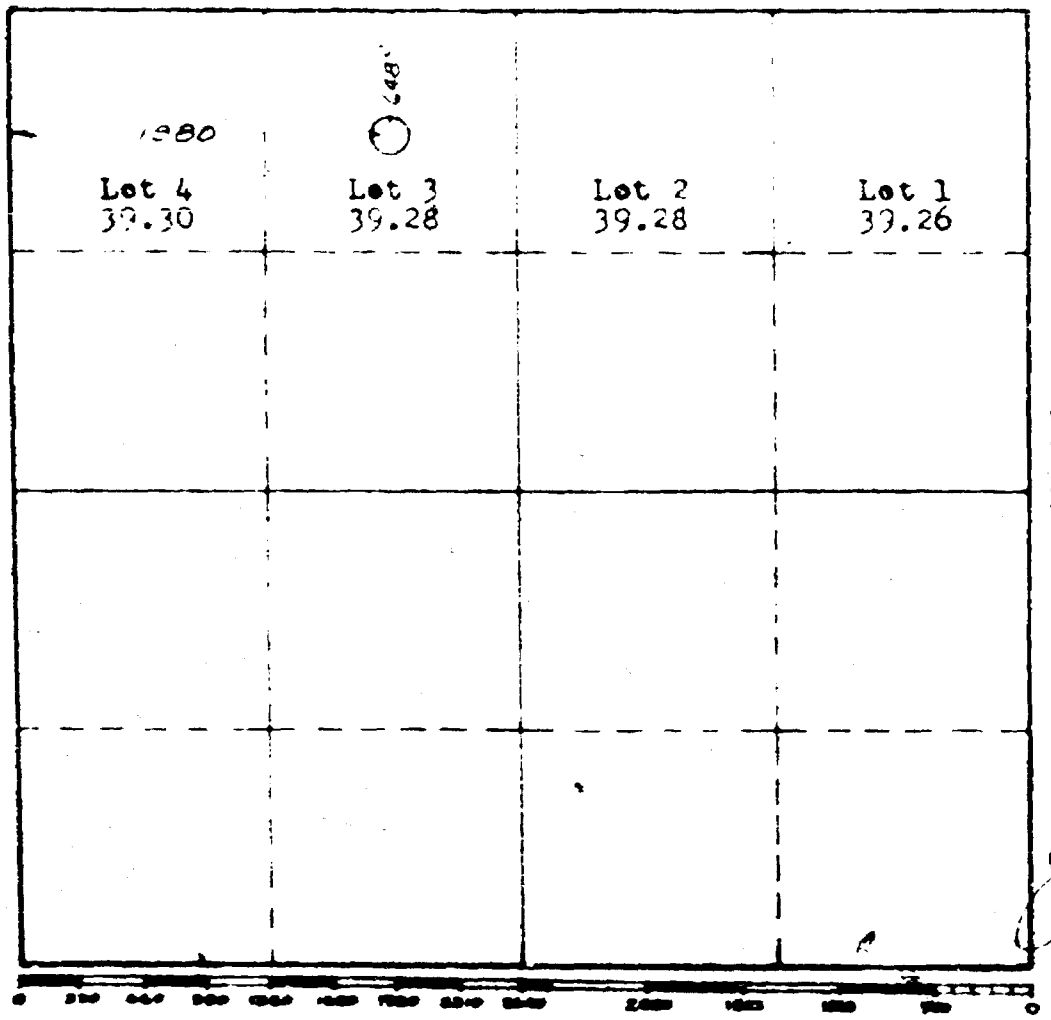
County Lea G. L. Elevation 4137.9 Dedicated Acreage 40 Acres

Name of Producing Formation Wildcat Pool --

1. Is the operator the only owner in the dedicated acreage outlined on the plat below?
Yes ____ No X .
2. If the answer to question one is "no," have the interests of all the owners been consolidated by communitization agreement or otherwise? Yes X No ____. If answer is "yes," type of consolidation Slick Unit Agreement covering unit area dated 7-19-57.
3. If the answer to question two is "no," list all the owners and their respective interests below:

Owner	Land Description
See Exhibit "B", Slick Unit Area attached.	

Section B



This is to certify that the information in Section A above is true and complete to the best of my knowledge and belief.

Slick Oil Corporation et al
(Operator)

J. E. Toddlie
(Representative)

J. E. Toddlie, Jr., Asst. Prod. Engr.
1030 Rt. Oil Bldg.
Address

Houston, Texas

This is to certify that the well location shown on the plat in Section B was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed July 19, 1957

Registered Professional Engineer and/or Land Surveyor.

Certificate No. 1559

(See instructions for completing this form on the reverse side)

ILLEGIBLE

EXHIBIT "B"
SLICK UNIT AREA
LEA COUNTY, NEW MEXICO
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS IN ALL LANDS IN THE UNIT AREA

Tract No.	Description of Land	No. of Acres	State Lease No. and Expiration	Basic Royalty	Overriding Royalty and Percentage	Working Interest Owner
1.	T. 12 S., R. 34 E. Sec. 31: N/2	320	E-1443 8-11-57	State of N. M.	None	Phillips Petroleum Co.
2.	T. 12 S., R. 34 E. Sec. 32: SW¼, W½ SE¼	240	E-1518 10-10-57	State of N. M.	None	F. J. Danglade
3.	T. 12 S., R. 34 E. Sec. 32: E½ SE¼	80	E-1519 10-10-57	State of N. M.	None	Amerada Petroleum Corp.
4.	T. 13 S., R. 34 E. Sec. 1: Lots 1,2,3,4, S/2 N/2 Sec. 2: SE¼	477.12	E-1865 5-10-58	State of N. M.	None	Gulf Oil Corporation
5.	T. 13 S., R. 34 E. Sec. 1: SW¼	160	E-2580 4-11-59	State of N. M.	None	Ohio Oil Company
6.	T. 13 S., R. 34 E. Sec. 1: SE¼	160	E-6873 1-10-63	State of N. M.	None	Skelly Oil Company
7.	T. 13 S., R. 34 E. Sec. 2: Lots 1 & 2	78.77	E-8473 9-21-54	State of N. M.	None	Warren Petroleum Corp.
8.	T. 13 S., R. 34 E. Sec. 2: S½ NE¼	80	E-4645 11-10-60	State of N. M.	None	Champlin Refining Co.

8 STATE TRACTS AGGREGATING 1595.89 ACRES, MORE OR LESS

LEA COUNTY, NEW MEXICO

SLICK OIL CORPORATION

[illegible] OF THE SOUTHWEST

TEL. CA 4-8241

HOUSTON 2, TEXAS

July 1, 1957

GEOLOGICAL REPORT

SLICK UNIT AGREEMENT

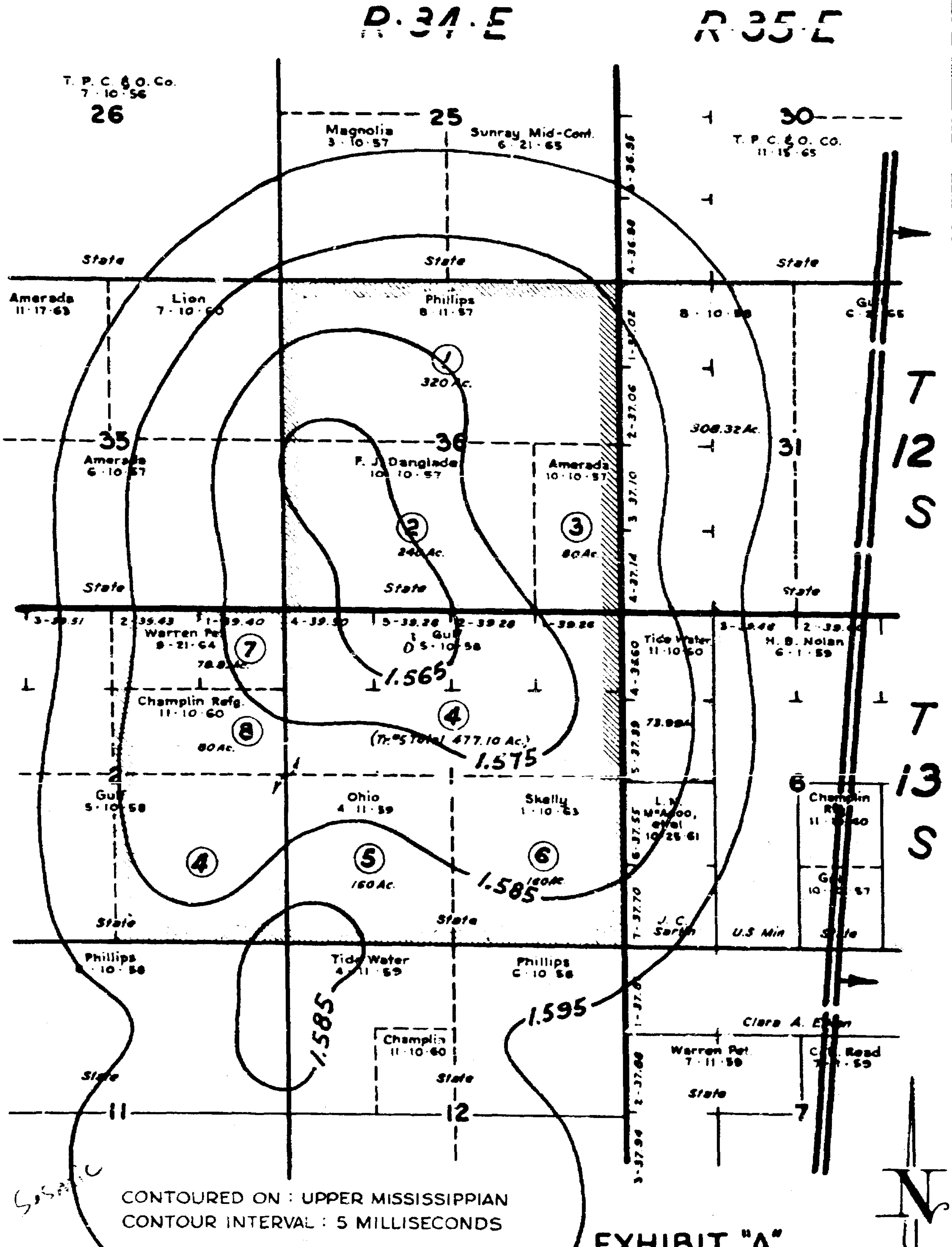
LEA COUNTY, NEW MEXICO

These interpretations are based on reflection at approximate levels of the Pennsylvanian and the Mississippian formations. The seismic work was performed by Empire Geophysical, Inc. for the account of Slick Oil Corporation. These maps represent this general conception of the structural anomaly at these reflecting horizons. The proposed location is at or near the highest point of the seismic control and near the center of the seismic anomaly.

SLICK OIL CORPORATION

By: Samuel E. Sims,
Vice President

SES:mc



CONTOURED ON : UPPER MISSISSIPPIAN
CONTOUR INTERVAL : 5 MILLISECONDS

Unit outline

EXHIBIT "A"
SLICK UNIT AGREEMENT
LEA COUNTY, NEW MEXICO
SCALE : 1" = 2000'

R 34 E

R 35 E

T 12 S

T 13 S

T. P. C. & O. Co. 7-10-56

26

25

Magnolia 3-10-57

Sunray Mid-Cont. 6-21-65

30

T. P. C. & O. CO. 11-15-65

State

Amerada 11-17-65

Lion 7-10-60

Phillips 11-57

8-10-58

Gulf 6-21-65

1

320 Ac.

1460

1450

1440

308.32 Ac.

35

36

31

Amerada 6-10-57

F. J. Darnlade 10-10-57

Amerada 10-10-57

2

240 Ac.

3

80 Ac.

State

State

State

3-39.51

2-39.43

1-39.46

4-39.36

5-39.28

3-39.28

1-39.46

3-39.46

1-39.60

Warren Pet. 9-21-64

Gulf 5-10-58

Tide Water 11-10-60

H. B. Nolan 6-[illegible]-59

5-36.88

4-36.88

3-36.88

2-37.06

1-37.02

3-37.10

4-37.14

3660

5-37.38

6-37.55

7-37.70

1-37.81

2-37.88

3-37.94

Champlin Rfg. 11-10-60

8

8 Ac.

4

(Tr. #5 Total 477.10 Ac.)

477.12

2

Gulf 5-10-58

Ohio 4-11-59

Skelly 1-10-63

L. B. McAdoo, et al 10-25-61

Champlin Rfg. 11-10-60

4

5

6

160 Ac.

160 Ac.

Gulf 10-10-57

State

State

State

Phillips 6-10-58

Tide Water 4-11-59

Phillips 6-10-58

J. C. Sarfi[illegible]

U.S. Mi[illegible]

Clarence Elkan

Champlin 11-10-60

Warren Pet. 7-11-59

C. B. Read 7-1-59

State

State

State

11

12

7

CONTOURED ON : PENNSYLVANIAN

CONTOUR INTERVAL : 10 MILLISECONDS

Unit outline

EXHIBIT "A"

SLICK UNIT AGREEMENT

LEA COUNTY, NEW MEXICO

SCALE : 1" = 2000'

N

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

THIS AGREEMENT, entered into as of the _____ day of _____, 1957, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto",

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinafter referred to as "Commissioner") is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 7, Art. 11, Sec. 39, N.M. Statutes 1953 Annotated), to consent to and approve the development or operation of state lands under agreements made by lessees of state land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 7, Art. 11, Sec 41 N.M. Statutes 1953 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing state lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Chap. 72, Laws 1935; Chap. 65, Art. 3, Sec. 14 N.M. Statutes 1953 Annotated), to approve this agreement and the conservation provisions hereof; and

Exhibit To Application

WHEREAS, the parties hereto hold sufficient interests in the Slick Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth.

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

Township 12 South, Range 34 East

Section 36: All - 640 acres

Township 13 South, Range 34 East

Section 1: Lots 1, 2, 3, and 4, S-1/2 N-1/2, S-1/2 - 637.12 acres

Section 2: Lots 1 and 2, S-1/2 NE-1/4, SE-1/4 - ~~318.83~~ 318.77 acres

containing 1,595.~~12~~ 89 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule

or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the ownership in the unitized land render such revision necessary, or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR. Slick Oil Corporation, with offices at Houston, Texas, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage

vote of the owners of working interests determined in like manner as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

5. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder and such costs and expenses and the working interest benefits accruing hereunder

shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement by and between the Unit Operator and the other owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest [illegible] and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties heretc which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY. The Unit Operator shall, within 22 days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to test the Devonian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of Unit Operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be

required to drill said well to a depth in excess of ~~13,200~~ 13,100 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proven to the satisfaction of the Unit Operator that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Failure to comply with the drilling provisions of this article shall automatically terminate this agreement as to all its terms, conditions and provisions and all rights, privileges and obligations granted by this unit agreement shall cease and terminate as of the date of any such default.

9. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

5A. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within [illegible] well capable of [illegible] tized substances in paying quantities, the Unit Operator may submit for the approval of the Commissioner, and the Commission, an acceptable plan of development and operation for the unitized land which, when approved by the Commissioner, and the Commission, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Commissioner, and the Commission, a plan for an additional specified period for the development and operation of the unitized land. Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commissioner, and the Commission, may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and (b) to the extent practicable specify the operating practices regarded as necessary and advisable for proper conservation of natural resources. Separate plans may be submitted for separate productive zones, subject to the approval of the Commissioner and the Commission. Such plan or plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of this approved plan of development. The Commissioner is authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such

action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substances in paying quantities no further wells, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Commissioner shall be drilled except in accordance with a plan of development approved as herein provided.

8B. Without impairing the right of the Commissioner to terminate this agreement where provided for herein, Paragraphs 8 and 8A hereof shall not be construed to require any party, without its consent, to participate in or be liable for all or a portion of the cost of drilling any well. The expense of drilling the initial test well shall be borne as provided for in the Unit Operating Agreement. Drilling of subsequent wells, where all parties do not agree to participate therein, shall be conducted in accordance with the provisions of Article XIII of the Unit Operating Agreement.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

10. ALLOCATION OF PRODUCTION. All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

11. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES. All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom,

a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

12. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA. The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement, shall, upon approval hereof by the Commissioner be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the length of the secondary term as to lands within such area will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner or the lessee, be effective to conform the provisions and extend the term of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed

to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws shall continue in full force and effect thereafter. The commencement, completion, operation or production of a well on any part of the unit area shall be respectively construed and considered as the commencement or completion or operation or production of a well within the terms and provisions of each of the oil and gas leases to the same extent as though such commencement, completion, operation or production was carried on, conducted on or obtained from any such leased tract.

Any lease having only a portion of its lands committed hereto shall be segregated as to the portion committed and to the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

13. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state laws or regulations.

14. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized lands by wells on lands not subject to this agreement.

15. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance, of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

16. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Commissioner and shall terminate in two years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner. Likewise, as provided in Section 8 hereof, the failure to comply with the drilling provisions of this unit agreement shall as of the date of any such default, automatically terminate this unit agreement.

17. RATE OF PRODUCTION. All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Com-

mision and in conformity with all applicable laws and lawful regulations.

18. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

19. NOTICES. All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given, if given in writing and personally delivered to the party or sent by postpaid registered mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

20. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

21. LOSS OF TITLE. In the event title to any tract of unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the

operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

22. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a working interest owner shall be subject to all the requirements of any applicable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties before participating in any benefits hereunder shall be required to assume and pay to Unit Operator their proportionate share of the unit expense incurred prior to such party's or parties' joinder in the unit agreement, and the Unit Operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

23. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto, and

shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

ATTEST:

_____
Secretary

Date _____

SLICK OIL CORPORATION

By: _____
President

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

_____
Secretary

Date _____

PHILLIPS PETROLEUM COMPANY

By: _____

ATTEST:

_____
Secretary

Date _____

AMERADA PETROLEUM CORPORATION

By: _____

ATTEST:

_____
Secretary

Date _____

GULF OIL CORPORATION

By: _____

ATTEST:

_____
Secretary

Date _____

OHIO OIL COMPANY

By: _____

ATTEST:

_____
Secretary

Date _____

SKELLY OIL COMPANY

By: _____

ATTEST:

_____
Secretary

Date _____

WARREN PETROLEUM CORPORATION

By: _____

ATTEST:

_____
Secretary

Date _____

CHAMPLIN REFINING COMPANY

By: _____

Date _____

_____

Date _____

_____

Date _____

_____
F. J. Danglade

Date _____

_____

STATE OF _____ }
} SS.
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 1957 by _____, _____ of Slick 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 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

CERTIFICATE OF APPROVAL
BY COMMISSIONER OF PUBLIC LANDS,
STATE OF NEW MEXICO
OF UNIT AGREEMENT FOR DEVELOPMENT AND OPERATION
OF SLICK UNIT AREA
LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, an agreement for the development and operation of the Slick Unit Area, Lea County, New Mexico, dated the____day of_____, 1957, in which the Slick Oil Corporation is designated as Operator, and which has been executed by various parties owning and holding oil and gas leases embracing lands within the unit area, and upon examination of said agreement, the Commissioner finds:

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

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

(c) That the Agreement is in other respects for the best interest of the State;

(d) That the agreement provides for the unit operation of the field, for the allocation of production, and the sharing of proceeds from a part of the area covered by the agreement on an acreage basis as specified in the agreement.

NOW THEREFORE, by virtue of the authority conferred upon me by the Laws of the State of New Mexico, I, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the above referred to Slick Unit Agreement, as to the lands of the State of New Mexico committed thereto, and all oil and gas leases embracing lands of the State of New Mexico committed to said agreement shall be and the same are hereby amended so that the provisions thereof will conform to the provisions of said Unit Agreement and so that the length of the secondary term of each such lease will be extended, insofar as necessary, to coincide with the terms of said Unit Agreement, and in the event the term of said Unit Agreement shall be extended as provided therein such extension shall also be effective to extend the term of each oil and gas lease embracing lands of the State of New Mexico committed to said Unit Agreement which would otherwise expire, so as to coincide with the extended term of such Unit Agreement.

IN WITNESS WHEREOF, this certificate of approval is executed as of this the____day of_____, 1957.

_____
Commissioner of Public Lands of the
State of New Mexico

EXHIBIT "B"
SLICK UNIT AREA
LEA COUNTY, NEW MEXICO
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS
INTERESTS IN ALL LANDS IN THE UNIT AREA

Tract No.	Description of Land	No. of Acres	State Lease No. and Expiration	Basic Royalty	Overriding Royalty and Percentage	Working Interest Owner
1.	T. 12 S., R. 34 E. Sec. 36: N/½	320	E-1443 8-11-57	State of N.M.	None	Phillips Petroleum Company
2.	T. 12 S., R. 34 E. Sec. 36: SW¼,W½,SE/¼	240	E-1518 10-10-57	State of N.M.	None	F. J. Danglade
3.	T. 12 S., R. 34 E. Sec. 36: E½SE¼	80	E-1519 10-10-57	State of N.M.	None	Amerada Petroleum Corp.
4.	T.13 S., R. 34 E. Sec. 1: (N½) Lots 1,2,3,4, S/2 N/2 Sec. 2: SE¼	477.12	E-1865 5-10-58	State of N.M.	None	Gulf Oil Corporation
5.	T. 13 S., R. 34 E. Sec. 1: SW¼	160	E-2580 4-11-59	State of N.M.	None	Ohio Oil Company
6.	T. 13 S., R. 34 E. Sec. 1: SE¼	160	E-6873 1-10-63	State of N.M.	None	Skelly Oil Company
7.	T. 13 S , R. 34 E. Sec. 2: (N½NE¼) Lots 1 & 2	~~78.89~~ 78.77	E-8473 9-21-64	State of N.M.	None	Warren Petroleum Co-p.
8.	T. 13 S , R. 34 E. Sec. 2: S½NE¼	80	E-4645 11-10-60	State of N.M.	None	Champlin Refining Company

8 STATE TRACTS AGGREGATING ~~1595.12~~ 1595.89 ACRES, MORE OR LESS

LEA COUNTY, NEW MEXICO

R·34·E

R·35·E

T 12 S

T 13 S

T. P. C. & O. Co. 7·10·56

26

25

Magnolia 3·10·57

Sunray Mid-Cont. 6·21·65

30

T. P. C. & O. Co. 11·15·65

State

State

State

Amerada 11·17·63

Lion 7·10·60

Phillips 8·11·57

1 320 Ac.

8·10·58

Gulf 6·21·65

35

Amerada 6·10·57

36

F. J. Danglade 10·10·57

Amerada 10·10·57

31

308.32 Ac.

2 240 Ac.

3 80 Ac.

State

State

State

3-39.51 2-39.43 1-39.34

Warren Pet. 9·21·64

7 78.83 Ac. 78.77

4-39.90 3-39.28 2-39.28 1-39.26

Gulf 5·10·58

4-36.60 Tide Water 11·10·60

3-39.46 2-39.60

H. B. Nolan 6·1·59

Champlin Refg. 11·10·60

8 80 Ac.

4 (Tr. 5 Total 477.12 Ac.)

73.99 Ac.

2

Gulf 5·10·58

Ohio 4·11·59

Skelly 1·10·63

6

Champlin Refg. 11·10·60

L. N. McAdoo, et al 10·25·61

4 160 Ac.

5 160 Ac.

6 160 Ac.

Gulf 10·10·57

State

State

Phillips 6·10·58

Tide Water 4·11·59

Phillips 6·10·58

J. C. Sarlin

U.S. Min.

State

Champlin 11·10·60

Clara A. Elkan

Warren Pet. 7·11·59

C. B. Read 7·1·59

State

State

State

11

12

7

1-37.81

2-37.18

3-37.94

4-37.14

3-37.10

2-37.06

1-37.02

3-36.95

4-36.98

5-37.39

6-37.55

7-37.70

N

Unit outline

EXHIBIT "A"

SLICK UNIT AGREEMENT

LEA COUNTY, NEW MEXICO

SCALE : 1" = 2000'

EXHIBIT I

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

THIS AGREEMENT, made and entered into this 9th 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 $E\frac{1}{4}NW\frac{1}{4}$ 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, 1951

SLICK OIL CORPORATION

By _____
VICE President

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

_____
Secretary

Date _____

PHILLIPS PETROLEUM COMPANY

By: _____

ATTEST:

_____
Secretary

Date _____

AMERADA PETROLEUM CORPORATION

By: _____

ATTEST:

_____
Secretary

Date _____

GULF OIL CORPORATION

By: _____

ATTEST:

_____
Secretary

Date _____

OHIO OIL COMPANY

By: _____

ATTEST:

_____
Secretary

Date _____

SKELLY OIL COMPANY

By: _____

Date _____

ATTEST:

_____
Secretary

Date _____

WARREN PETROLEUM CORPORATION

By: _____

ATTEST:

_____
Secretary

Date _____

CHAMPLIN REFINING COMPANY

By: _____

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

_____
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.
CCUNTY 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 claims 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 1 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 [illegible] 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 [illegible]ies. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead cha[illegible] 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.