

## EXHIBIT "B"

SCHEDULE OF LANDS AND LEASES  
SITTING BULL UNIT AGREEMENT  
Eddy County, New Mexico

Tract	Description	Number of Acres	Lease Serial No. Expiration Date	Basic Royalty and Percent	Lessee of Record	Interest	Overriding Royalty		Working Interest Own	
							Owner and Percentage	Percentage	and Percentage	Percentage
FEDERAL LANDS										
1	T-23-S, R-22-E Section 31: Lots 1,2, 3,5,6,7, E/2 NW/4 NE/4 SW/4, N/2 SE/4, & NE/4	546.75	NM 036723 10/2/72	U.S.A. All	Cities Service Oil Company	All	Neil H. Wills & Mary E. Wills, his wife Box 529, Carlstad, New Mexico	3%	Cities Service Oil Company	Al
	T-23-S, R-22-E Section 31: lot 4	22.93	NM 036723-B 10/2/72	U.S.A. All	Cities Service Oil Company	All	Neil H. Wills & Mary E. Wills, his wife Box 529, Carlstad, New Mexico J. V. Fritts & Ruth C. Fritts, his wife Box 868, Roswell New Mexico	3% 2%	Cities Service Oil Company	Al
2	T-23-S, R-22-E Section 33: Lot 8, W/2 NE/4, N/2 NW/4, SW/4 NW/4	232.53	NM 0150421 10/2/72	U.S.A. All	Union Oil Company of California	All	Gerald T. Tresner & Amy Tresner, his wife 910 Midland Savings Bldg., Denver, Colorado	4%	Union Oil Company of California	Al
	T-24-S, R-22-E Section 7: Lots 1,2,3,4, E/2 W/2, NE/4, W/2 SE/4	555.08	NM 0425718 12/31/73	U.S.A. All	Bell Petroleum Company	All	None		Bell Petroleum Company	Al
3	T-24-S, R-22-E Section 5: All	642.60	NM 0553768 8/31/74	U.S.A. All	Cities Service Oil Company	All	None		Cities Service Oil Company	Al
	T-23-S, R-22-E Section 29: SW/4 & W/2 NW/4	240.00	NM 0555271 1/31/75	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Company)	All	W. B. Hoffhine Box 2042 Casper, Wyoming	3%	Inexco Oil Company	Al
4	T-23-S, R-22-E Section 32: Lots 1,2,3,4, N/2, N/2 S/2	633.52	NM 0555753 2/28/75	U.S.A. All	Cities Service Oil Company	All	E. L. Hodges & Edith J. Hodges Box 336 Roswell, New Mexico	2%	Cities Service Oil Company	Al

7.	<u>T-24-S, R-22-E</u> Section 6: Lots 1,2, 3,4,5,6,7, S/2 NE/4, SE/4 NW/4, E/2 SW/4, SE/4	636.43	NM 0555754 2/28/75	U.S.A. All	W. H. Hunt	All	None	W. H. Hunt	A
8.	<u>T-23-S, R-22-E</u> Section 33: Lot 14	37.53	NM 5437 7/31/78	U.S.A. All	Cities Service Oil Company	All	M.A. Barton & R.M. Barton, her husband 5% Box 2166 Santa Fe, New Mexico	Cities Service Oil Company	A
9.	<u>T-23-S, R-22-E</u> Section 9: SW/4	160.00	NM 8242 A 1/31/79	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Co.)	All	Thelma F. DeSmet 4% 1631 12th Ave. Sacramento, California	Inexco Oil Company	A
10.	<u>T-23-S, R-22-E</u> Section 33: Lots 9,10, 11,12,13 & 15	104.67	NM 9533 7/31/79	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Co.)	All	William H. Short, Jr. 4% & Rita Short, his wife; & Franklin Knobel & Norma Knobel, his wife	Inexco Oil Company	A
11.	<u>T-24-S, R-22-E</u> Section 4: Lots 1,2,3,4, S/2 R/2, S/2	642.80	NM 9534 A 7/31/79	U.S.A. All	Cities Service Oil Co.	All	M. N. Hahn & Charlotte Hahr, his wife, 185 Oakbank Rd., Bakersfield, Calif. 2% C.E. Strange & Sherrie R. Strange 2%	Cities Service Oil Company	A
12.	<u>T-24-S, R-22-E</u> Section 9: NE/4	160.00	NM 9534 B 7/31/79	U.S.A. All	Natural Resources Corp. & King Resources Co.	All	M.N. Hahn & Charlotte Hahn, his wife; 2% C.E. Strange & Sherrie Strange, his wife 2%	National Resources Corp. & King Resources Co.	A
13.	<u>T-23-S, R-22-E</u> Section 33: Lots 1,2, 5,6,7,16	241.46	NM 9802 7/31/79	U.S.A. All	Chalfant, Magee & Hansen, Inc. (Assigned to Inexco Oil Co.)	All	A.W. Rutter, Jr. and wife, Virginia S. 2% Rutter and Wilbanks Corp. 3% 500. N. Big Spring St. Midland, Texas 79701	Inexco Oil Company	A
14.	<u>T-24-S, R-22-E</u> Section 7: E/2 SE/4	80.00	NM 10885 2/29/80	U.S.A. All	Union Oil Company of California	All	Rita Short & husband, Wm.H. Short and Lee Gray & wife, Bobbie Gray 3%	Union Oil Company of California	A

15.	<u>T-22-S, E-22-E</u> Section 2: All Section 9: NW/4 & SE/4	960.00	NM 11100 3/31/80	U.S.A. All	Chalfant, Magee & Hansen, All Inc.(Assigned to Inexco Oil Co.)	Julius W. Rakvic and wife, Thelma Rakvic 1726 Lincoln Highway, N. Versailles, Pennsylvania	5% Inexco Oil Company
16.	<u>T-22-S, E-22-E</u> Section 26: Lots 1,2,3,4, W/2 E/2, W/2 Section 33: Lot 17	668.24	NM 12389 10/31/80	U.S.A. All	Chalfant, Magee & Hansen, All Inc.(Assigned to Inexco Oil Co.)	Franklin, Aston & Fair, Inc., Box 1090, Roswell, New Mexico 2% Howell Spear Box 96, Hobbs, N.M. 2% Jack Grynberg & Celeste Grynberg, 1% his wife 750 Petroleum Club Bldg., Denver, Colo.	Inexco Oil Company
17.	<u>T-22-S, R-22-E</u> Section 29: E/2 & E/2 NW/4	400.00	NM 14111 A 9/30/81	U.S.A. All	Chalfant, Magee & Hansen, All Inc.(Assigned to Inexco Oil Co.)	Sherman Nelson & Jon Nelson, Seguin, Texas 10% of 4% Ben M. Patterson, Jr. & wife, Donna Patterson 1802 NBC Bldg. 90% of 4% San Antonio, Texas	Inexco Oil Company

6,964.54 Acres in Unit

UNITING JOINT VENTURE OPERATING AGREEMENT

TO BE USED SHOWING CROSS ACRES CONTRIBUTED AND COMMITTED BY WORKING INTEREST OWNERS; THEIR PERCENTAGE AND ALSO PARTICIPATION OF RESPECTIVE PARTIES IN INITIAL TEST WELL AND SUBSEQUENT WELLS AND PRODUCTION

Working Interest Owners

COL. 1		COL. 2	
Tract No.	Acres	% Owned	Acres Committed & % Basic Royalty
Cities Service Oil Company			
1	546.75	100.00	546.75 12.5000%
1 A	22.93	100.00	22.93 12.5000%
4	642.60	100.00	642.60 12.5000%
6	633.52	100.00	633.52 12.5000%
8	37.53	100.00	37.53 12.5000%
11	642.80	100.00	642.80 12.5000%
Sub-Total			2,526.13 (37.124184%)
Union Oil Company of California			
2	232.53	100.00	232.53 12.5000%
14	80.00	100.00	80.00 12.5000%
Sub-Total			312.53 (4.592962%)
Bell Petroleum Co.			
3	555.08	100.00	555.08 12.5000%
Sub-Total			555.08 (8.157494%)
Inexco Oil Company			
5	240.00	100.00	240.00 12.5000%
9	160.00	100.00	160.00 12.5000%
10	104.67	100.00	104.67 12.5000%
13	241.46	100.00	241.46 12.5000%
15	960.00	100.00	960.00 12.5000%
16	668.24	100.00	668.24 12.5000%
17	400.00	100.00	400.00 12.5000%
Sub-Total			2,774.37 (40.772337%)
W.H. Hunt			
7	636.43	100.00	636.43 12.5000%
Sub-Total			636.43 (9.353020%)
GRAND TOTALS			6,804.54 Acres
TOTALS			
6,804.54 Acres = 100.000000%			
160.00 Acres Not Committed (Tract 12 of Exhibit A&B)			
6,964.54 Total Acres in Unit (All Federal Lands)			

## EXHIBIT "C"

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	COL. 1	COL. 2	COL. 3	COL. 4	COL. 5	COL. 6
	Acreage contributed initial test well	Percentage gross acreage contributed initial test well	Cost participation initial test well and operating costs until paid out	Working Interest Participation production test well until paid out	Percentage ownership equipment initial test well after payout and participation drilling and operating costs all subsequent wells	**Participation in Working Interest Production after payout initial test well and all subsequent wells
Working Interest Owners						
Cities Service Oil Company	1263.065	18.562092	None	None	18.562092%	18.562092%
Union Oil Company of California	156.265	2.296481	None	None	2.296481%	2.296481%
Bell Petroleum Company	277.54	4.078747	None	None	4.078747%	4.078747%
Inexco Oil Company	None	None	100.00000	*100.00000	70.386170%	70.386170%
W. H. Hunt	318.215	4.676510	None	None	4.676510%	4.676510%
GRAND TOTALS	2,015.085	28.613830	100.000000%	100.000000%	100.000000%	100.000000%

\*Subject to the overriding royalty during payout to "Non-participating parties".

\*\*Subject to each party bearing the excess burdens on leases they are committing to the unit as per Article 4.2 of this agreement.

EXHIBIT " D "

Recommended by the  
Council of Petroleum  
Accountants Societies of  
North America.

Attached to and made a part of Unit Operating Agreement  
For the Development and Operation of the  
Sitting Bull Unit Area, Eddy County, New Mexico

## ACCOUNTING PROCEDURE

### (JOINT OPERATIONS)

#### I. GENERAL PROVISIONS

##### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

##### 2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

##### 3. Collective Action by Non-Operators

Where an agreement or other action of Non-Operators is expressly required under this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the agreement or action of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

##### 4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C 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. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

##### 5. Payment and Advances by Non-Operators

Each Non-Operator 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. **ten per cent (10%)**

##### 6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators 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 a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

##### 7. 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, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. 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. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

##### 1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

##### 2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

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 however, the total of such charges shall not exceed ~~XXXXXXXXXX~~ of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.  
fifteen per cent
4. **Material**  
Material purchased or furnished by Operator for use on 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 and Material necessary for the Joint Operations but subject to the following limitations:  
A. If Material is moved to the Joint Property 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 like material is available, except by agreement with Non-Operators.  
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 to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.  
C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**  
A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.  
B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **Damages and Losses to Joint Property**  
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**  
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **Taxes**  
All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.
10. **Insurance Premiums**  
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **Other Expenditures**  
Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator for the necessary and proper conduct of the Joint Operations.

### III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

**OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:**

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)  
☒ Paragraph 4. (Combined fixed rate)

**1. District Expense**

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's \_\_\_\_\_ office located at or near \_\_\_\_\_ (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

**2. Administrative Overhead**

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

**WELL BASIS (RATE PER WELL PER MONTH)**

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. Operator's Fully Owned Warehouse Operating and Maintenance Expense  
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

Well Depth	WELL BASIS (RATE PER WELL PER MONTH)			
	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth)		
		First Five	Next Five	All Wells Over Ten
All	\$692.00	\$121.00	\$110.00	\$98.00

Said fixed rate (shall) (shall not) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.

(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.

(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.

(4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.

(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.

(6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.

C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.

D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:

TO BE NEGOTIATED

7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

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

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

(1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.

(3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(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 classified as Condition "C" and priced at fifty per cent (50%) of current new price.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for



same other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

(4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

### 3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV 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 Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

### 4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

### 5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall 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 Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall 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-Operators

Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

## VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

### 1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

### 2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account as secondhand at seventy-five percent (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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

### 5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

### 6. Junk Material

Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, 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.

## VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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

### 2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. 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 whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

EXHIBIT "B"

INSURANCE

Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

2) Comprehensive general public liability insurance, excluding products liability insurance, with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and  
\$300,000 for more than one person in any one accident, and  
\$500,000 for loss of or damage to property in any one accident and  
\$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and  
\$300,000 for more than one person in any one accident and  
\$ 50,000 for loss of or damage to property in any one accident.

If automotive equipment used is owned exclusively by Operator, charge will be made to the Joint Account for premiums for this coverage except as provided in Section 111, Paragraph 5 of the Accounting Procedure.

Operator shall require all contractors performing work under this Agreement to carry the following insurance:

1) Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.

2) Comprehensive general public liability insurance with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and  
\$100,000 for more than one person in any one accident, and  
\$300,000 for loss of or damage to property in any one accident and  
\$100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3) Automobile public liability insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

\$100,000 applicable to bodily injury, sickness or death of any one person and  
\$300,000 for more than one person in any one accident, and  
\$ 50,000 for loss of or damage to property in any one accident.