

Richard Nixon Presidential Library
White House Special Files Collection
Folder List

<u>Box Number</u>	<u>Folder Number</u>	<u>Document Date</u>	<u>Document Type</u>	<u>Document Description</u>
10	8	07/26/1965	Letter	C. Arnold Brown June Monthly operations report Lies No. 1, with attachment. 2 pages.
10	8	07/23/1965	Letter	C. Arnold Brown to Nixon re: Kansas Corp Commission Basic Proration Order with attachments, including mailing envelope. 6 pages.
10	8	07/08/1965	Letter	C. Arnold Brown to Anne Volz re: assignment that has not been notarized, with attachment. 2 pages.
10	8	07/08/1965	Letter	Anne Volz to C. Arnold Brown re: completed Assignment papers, with attachments. 3 pages.
10	8	06/28/1965	Letter	C. Arnold Brown to Nixon re: signing assignment and agreement documents. 1 page.
10	8	06/30/1965	Letter	C. Arnold Brown to Nixon re: Lies No. 1 operations. 2 pages.

<u>Box Number</u>	<u>Folder Number</u>	<u>Document Date</u>	<u>Document Type</u>	<u>Document Description</u>
10	8	06/14/1965	Letter	C. Arnold Brown to Nixon re: spacing application for Northeast Sharon Fiel, with attachments. 8 pages.
10	8	06/10/1965	Letter	Wanenmacher to Russell Lund re: North Dodge City prospect, with attachment. 3 pages.
10	8	06/07/1965	Letter	Jack James to Nixon re: insurance certificates for vehicles. 1 page.
10	8	06/04/1965	Letter	C. Arnold Brown to Nixon re: operating agreement for Sharon Area, with attachments. 21 pages.

Fyi
File

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

July 26, 1965

RECEIVED
JUL 28 1965

Mr. Richard M. Nixon
20 Broad Street
New York, New York

Re: Monthly Operations Report
Lies No. 1
NE SE Section 14-34S-10W
Barber County, Kansas

Gentlemen:

Enclosed is the daily gauge report showing the oil production and oil sales during the month of June, 1965.

Oil production declined severely during the month of June, from around 110 barrels per day to 23 barrels per day. The water production during this period remained constant at approximately 7 barrels per day. A fluid level survey run June, 22, indicated only 117 feet of fluid in the hole above the pump.

The rapid decline of the oil production apparently indicated the Mississippi reservoir at this location is fairly small. It is possible that oil production might be increased with a fracture treatment of the perforated interval, but it is also recognized that this treatment might be risky. It is definitely known that the water-oil contact is in close proximity to the well bore and a fracture treatment might increase the water volumes tremendously.

If there are any questions regarding this report, we will be most happy to confer with you.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.

C. Arnold Brown

C. Arnold Brown

Enclosure

CAB/pjl

LIES NO. 1
DAILY GAUGE REPORT

June	Oil	Sales	Remarks
1.	55.00		Well Shut in. Waiting on chemical and chemical pump.
2.			Shut in.
3.			Shut in.
4.			Treated out oil. Shut in.
5.		152.42	Well off through 16/64 choke.
6.	60.00		Flowing on 200# TP 600 CP.
7.	48.00		
8.	55.00		
9.	42.00		Run pump and rods - would't run.
10.			Run new pump.
11.			
12.		143.00	
13.			
14.	50.00		
15.	40.00		
16.	51.00	109.91	
		85.73	
17.	39.00		
18.	48.00		
19.	45.00		
20.	47.00		
21.	40.00	159.53	
22.	40.00		Fluid Level Survey 117' fluid in hole.
23.	39.00	155.97	
24.	40.00		
25.	32.00		
26.	30.00		
27.	27.00		
28.	20.00		
29.	23.00	161.32	
30.	23.00		
	<u>894.00</u>	<u>967.88</u>	

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

July 23, 1965

*fyi
file
V.A.*

RECEIVED
JUL 23 1965
✓

Mr. Richard M. Nixon
20 Broad Street
New York, New York

Re: Kansas Corporation Commission
Basic Proration Order
Sharon West Mississippi Oil Pool
Barber County, Kansas

Gentlemen:

Enclosed is a copy of the above-captioned Kansas Corporation
Commission order for your files.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.

C. Arnold Brown

C. Arnold Brown

Enclosure

CAB/pjl

MAILED

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

JUL 19 1965

CONSERVATION DIVISION
WICHITA, KANSAS

Before Commissioners: William L. Mitchell, Chairman
James O. Greenleaf
Harry G. Wiles

In the Matter of establishing rules and regulations relating to the production, sale and conservation of crude oil in the Mississippi formation of the Sharon West Mississippi Oil Pool in Barber County, Kansas.) DOCKET NO. 76,703-C
) (C-11,912)
)
)
)
)
) CONSERVATION DIVISION

BASIC PRORATION ORDER

FOR THE

SHARON WEST MISSISSIPPI OIL POOL

BARBER COUNTY, KANSAS

RECEIVED

JUL 20 1965

KWB, INC.

Now, on this 30th day of June, 1965, the above-entitled matter comes before the Commission for consideration and disposition. After due notice, a public hearing was held at Wichita, Kansas, on June 29, 1965, on an application by K W B Oil Property Management, Inc., for an order establishing rules and regulations and appropriate allowables for production from the Sharon West Mississippi Oil Pool in Barber County, Kansas. The Commission, having heard the evidence and having examined its files and records and the exhibits introduced in said hearing, and being duly advised of field conditions, makes the following findings:

1. DESCRIPTION OF FIELD: The Sharon West Mississippi Oil Pool in Barber County, Kansas, is considered to consist at the present time, of the following acreage:

Township 32 South, Range 10 West

The Southwest Quarter (SW/4) and the West Half (W/2) of the Northwest Quarter (NW/4) of Section Thirteen (13); the East Half (E/2), the East Half (E/2) of the Northwest Quarter (NW/4), the East Half (E/2) of the Southwest Quarter (SW/4), and the Southwest Quarter (SW/4) of the Southwest Quarter (SW/4) of Section Fourteen (14); the Northeast Quarter (NE/4) of Section Twenty-three (23); and the Northwest Quarter (NW/4) of Section Twenty-four (24);

All in Barber County, Kansas.

2. COMMON SOURCE OF SUPPLY: The Sharon West Mississippi Oil Pool is a common source of supply of crude oil within the purview of and as contemplated by G. S. 1949, Chapter 55, Article 6, as amended. Production is from the Mississippi common source of supply. The top of the producing zone in the first well in the pool, K W B No. 1 Lies Well located in the approximate center of the NE/4 SE/4 of Section 14, Township 32 South, Range 10 West, Barber County, Kansas, was found at an approximate depth of 4385 feet.

3. JURISDICTION REQUIRED: In order to prevent disproportionate production from the wells and leases in said pool which might impair the correlative rights of the owners of developed leases, and in order to comply with existing statutes to provide for orderly development in well spacing, and considering the oil reserves in the subject reservoir and the costs of drilling, equipping and producing wells drilled therein, it is in the interest of the prevention of waste and of further orderly development of the pool that an Eighty (80) acre spacing pattern be adopted in the described area, and that appropriate allowables be fixed for the wells drilled and to be drilled in said area. In addition, well location restrictions should be adopted.

4. ACREAGE AND WELL SPACING: One Well completed in said common source of supply can adequately and efficiently drain Eighty (80) acres, and the entire oil reservoir can be adequately and efficiently drained by wells located on the well spacing pattern hereinafter set forth. Uncompensated drainage between developed leases will be prevented by said spacing pattern.

- (a) For a well to have Eighty (80) acres attributed thereto, the acreage shall be adjoining and contiguous and the length thereof shall not exceed twice the width at its narrowest point. The prescribed well location shall be the approximate center of the Northeast quarter and the Southwest quarter of each quarter section of a governmental section; provided, that the well shall not be farther than 150 feet from the center of said quarter quarter section and shall not be nearer than 600 feet to any lease or unit boundary line.

The Commission may exclude any acreage from inclusion in any unit which in its judgment is not productive, provided however, that if any interested party so requests, the matter shall be noticed and set for hearing. Acreage shall not be attributed to more than one well at the same time; however, the completion of a well within the borders of a tract, all of which acreage has been allocated to another well, will necessitate readjustment of attributed acreage in conformance with the revised status of the lease or unit.

- (b) Any well drilled at least 600 feet from a lease or unit boundary line but farther than 150 feet from the center of the prescribed quarter quarter section, shall have its attributable acreage reduced by the number of acres in an area determined by the distance of the well from the center of said quarter quarter section multiplied by the width of the unit.
- (c) Any well drilled nearer than 600 feet to the nearest lease or unit boundary line shall have its attributable acreage determined by the establishment of an acreage-attribution unit with its width defined as being twice the distance from the well to the nearest lease or unit boundary line, whichever is closer to the well, and the length of said unit may be twice the width but not to exceed 1320 feet. Any well thus drilled shall be located in the center of the acreage-attribution unit.
- (d) Exceptions to the above restrictions as to well location, length and width of unit, and number of acres attributable, may be granted whenever the Commission, after notice and hearing, shall find that the granting of such exceptions is necessary to prevent waste or to protect correlative rights, due to (1) inability to secure acreage

for attribution to a well to form a unit in compliance with the above requirements as to spacing and well location, after a reasonable attempt has been made, (2) where non-uniform tracts are created due to governmental survey, or (3) where there is a surface obstruction, either natural or man made.

- (c) Provided however, that the restrictions as to well location and length and width of units herein set out shall not apply to wells which were in existence or in the process of being drilled on the effective date of this order.

5. **DAILY OIL ALLOWABLE:** For each well having eighty (80) acres attributed thereto, there shall be assigned a basic daily oil allowable equivalent to one and one-fourth (1-1/4) barrels of oil per day for each 100 feet of depth, measured from the surface to the top of the producing zone in the first well completed in the pool; therefore, in the Sharon West Mississippi Oil Pool, the basic daily oil allowable is determined to be fifty-five (55) barrels of oil provided however, that in no case shall a daily allowable be greater than the productivity of the well as determined by the Commission. For all wells having attributed thereto acreage which totals either more or less than Eighty (80) acres, the daily allowable shall be adjusted in the proportion that the acreage attributed to the well bears to Eighty (80) acres. This shall be construed as a special rule, and wells in this pool from and after the effective date of this order shall no longer be subject to or affected by the provisions of Rule 82-2-109 relating to the proportionate factor for pool depth range as set out in Section "B" thereof.

Allowables determined by the above method shall be subject to adjustment by the Commission consistent with market demand.

6. **PRODUCTION TESTS AND SPACING PLATS:** The operator of any well in the area subject to this order shall, at the time of filing his "Notice of Intention to Drill," file a certified plat with the Conservation Division showing the acreage proposed to be attributed to the well and the footage measurements of the well from unit and lease boundary lines. Upon initial completion of a well, the operator shall furnish the Commission with an affidavit to establish temporary productivity on the forms prescribed by the Commission; the operator shall also file a plat, drawn to the scale of four (4) inches to one (1) mile which shall set out the location of the well, the dimensions of the area or the acreage claimed attributable to it, the location of all wells and dry holes on the same lease and the dimensions and area of the acreage attributed to each oil well. Upon receipt of such affidavit of temporary productivity and plats, the Commission shall assign an appropriate allowable to such well in accordance with paragraph (5) of this order, provided however, that the operator shall, within forty-five (45) days from the effective date of the temporary productivity affidavit, take a State supervised productivity test to determine the capacity of the well to produce. Operators of wells in existence on the effective date of this order shall, likewise, file with the Conservation Division attributable acreage plats for such existing wells as above set out and shall take a State supervised productivity test for each well.

7. **EFFECTIVE DATE:** This order shall constitute the basic order for the proration of production in said pool as of July 1, 1965, and until amended, changed or modified by further order of the Commission.

IT IS, THEREFORE, BY THE COMMISSION ORDERED: That the order entered herein be and the same is hereby designated as the basic order for the proration of production of oil from the Sharon West Mississippi Oil Pool, Barber County, Kansas; that the production of crude oil from said pool be, and the same is hereby regulated and restricted in conformance with the findings hereinabove made and in compliance with the formula, rules and regulations herein contained.

IT IS FURTHER ORDERED: That this order shall take effect and be in force as of July 1, 1965, and shall remain in force and effect until amended, changed or modified by further order of the Commission.

The Commission hereby retains continuing jurisdiction of the subject matter hereof, and of the parties hereto, for the purpose of issuing from time to time such orders, amendments, additional orders, rules and regulations as may be necessary and proper in the premises.

BY THE COMMISSION IT IS SO ORDERED.

Mitchell, Chm.; Greenleaf, Com.; Wiles, Com.

RAYMOND B. HARVEY
Raymond B. Harvey, Secretary

(SEAL)

GDR:rf

ATTEST:
TRUE COPY
Raymond B. Harvey
SECRETARY STATE CORPORATION
COMMISSION STATE OF KANSAS

SA. OKLA.
P.M.
23 JUL
1965

K W B
PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

TULSA, OKLA.
PM
23 JUL
1965



Mr. Richard M. Nixon
20 Broad Street
New York, New York



P E R S O N A L

K W B
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

July 8, 1965

Miss Anne Volz
Secretary to Mr. Nixon
20 Broad Street
New York, New York

Re: Assignment and Agreement
Northeast Sharon
Barber County, Kansas

Dear Miss Volz:

We have received the assignment and agreement covering the Northeast Sharon area but due to an oversight the enclosed instruments have not been notarized. Please have Mr. Nixon's signature notarized and return the instruments to us.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.



C. Arnold Brown

Enclosure

CAB/pjl

fold

July 9, 1965

Mr. C. Arnold Brown
KWB
Oil Property Management, Inc.
Kennedy Building
Tulsa, Oklahoma 74103

Dear Mr. Brown:

Enclosed are the signed and notarized
Assignments and Agreements.

I trust these will be in order and
I'm sorry for the inconvenience caused in your
having to return these to us.

Very truly yours,

Anne Volz

File

July 7, 1965

Mr. C. Arnold Brown
K W B
Oil Property Management, Inc.
Kennedy Building
Tulsa, Oklahoma 74103

Dear Mr. Brown:

Enclosed you will find the completed
ASSIGNMENT AND AGREEMENT as per your letter to
Mr. Russell Lund.

Sincerely,

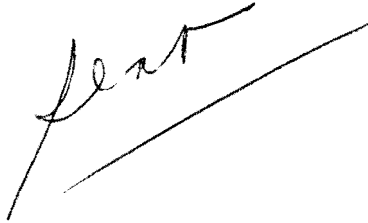
Anne Volz
Secretary to Mr. Nixon

7-1-65

Dick.....

The letter attached will explain
that you are to sign all copies
with notarization and return
them all to Arnold Brown, KWB..

RTL

A handwritten signature in cursive script, appearing to read "RTL", is written over a diagonal line that extends from the bottom left towards the top right.

from the desk of

RUSSELL T. LUND

RECEIVED
JUL 1 1965

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

for file

June 28, 1965

Mr. Russell T. Lund
1450 West Lake Street
Minneapolis, Minnesota

Re: Northeast Sharon Prospect
Barber County, Kansas

Dear Russell:

We are enclosing multiple copies of the assignment and agreement of the captioned properties from KWB Oil Property Management, Inc. to Russell T. Lund and Richard M. Nixon. This assignment provides for the reversionary interest previously agreed to, consisting of a 20% working interest, after payout, to Mr. Keplinger, Mr. Wanenmacher, and to myself.

In accordance with the first paragraph on page four of the assignment and agreement, we will prepare the quarterly reports concerning the payout of the reversionary interest and forward same to each of the interested parties.

Excluded from this assignment and agreement is your share of an undivided one-half mineral interest in the E/2 SW/4 and SW/4 SW/4 Section 14, Township 32S, Range 10W, Barber County, Kansas. A lease on the one-half interest has been obtained, but cannot be recorded because of a drilling commitment described in the escrow agreement. If and when this drilling commitment has been satisfied, instruments will be recorded and your share of the one-half mineral interest will be assigned to you and Mr. Nixon by separate letter. This same procedure will be followed in assigning the outstanding interests in the Schreiner leasehold in the E/2 NE/4 Section 14, Township 32S, Range 10W. When this mineral interest has been obtained, assignments bearing yours and Mr. Nixon's interest will be prepared and forwarded.

We would appreciate your signing in the space provided at the end of the agreement having your signature notarized, and forwarding all copies to Mr. Nixon for his signature and notarization. Please instruct Mr. Nixon to forward all copies back to us and we will have the instruments recorded. After the instruments have been recorded, we will mail you and Mr. Nixon each a copy of the recorded instruments.

This assignment and agreement is similar to the one previously prepared on the North Hardtner Field. If there are any questions, please do not hesitate to call on us.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.

C. Arnold Brown

C. Arnold Brown

Enclosures

cc: Mr. Richard M. Nixon

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

*Copy
sent
ack*

June 28, 1965

Mr. Russell T. Lund
1450 West Lake Street
Minneapolis, Minnesota

Re: Northeast Sharon Prospect
Barber County, Kansas

Dear Russell:

We are enclosing multiple copies of the assignment and agreement of the captioned properties from KWB Oil Property Management, Inc. to Russell T. Lund and Richard M. Nixon. This assignment provides for the reversionary interest previously agreed to, consisting of a 20% working interest, after payout, to Mr. Keplinger, Mr. Wanenmacher, and to myself.

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We would appreciate your signing in the space provided at the end of the agreement having your signature notarized, and forwarding all copies to Mr. Nixon for his signature and notarization. Please instruct Mr. Nixon to forward all copies back to us and we will have the instruments recorded. After the instruments have been recorded, we will mail you and Mr. Nixon each a copy of the recorded instruments.

This assignment and agreement is similar to the one previously prepared on the North Hardtner Field. If there are any questions, please do not hesitate to call on us.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.

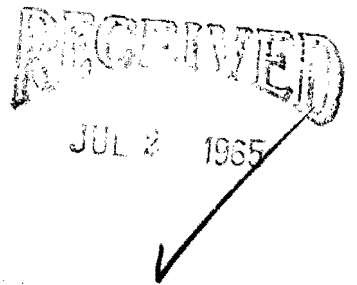
C. Arnold Brown

C. Arnold Brown

Enclosures
cc: Mr. Richard M. Nixon

K W B
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

June 30, 1965



Mr. Richard M. Nixon
20 Broad Street
New York, New York

Re: Lies No. 1
NE SE Section 14-32S-10W
Barber County, Kansas

Dear Mr. Nixon:

This letter will summarize the operations on the above-captioned well since the initial completion. On May 21, 1965, the well was completed, swabbing and flowing 53 barrels in seven hours for an average rate of 7½ barrels per hour.

May 28, 1965: Well started flowing to the tank battery. Tubing pressure 180 pounds, casing pressure 520 pounds, 16/64" choke size flowed 61.89 barrels in twelve hours.

May 29, 1965: Flowed 110 barrels of oil in twenty-four hours.

June 1, 1965: Well had to be shut-in to treat the oil in the tank battery. A tough water-oil emulsion was found in the tanks as a result of the high flowing rate and the extreme amount of gas.

June 4, 1965: The oil in the tank battery was treated out and sold.

June 5, 1965: Started flowing well again at a rate of 5 to 6 barrels of oil per hour. Flowed twelve hours and died.

June 7 through June 9, 1965: Well flowing 45 to 60 barrels of oil per day in twelve hours and dying.

June 9, 1965: Ran rods and pump. Started well to pumping. Well would not pump due to the extreme amount of gas handled through the pump.

June 10, 1965: Changed pumps, treated oil in tank battery to sell.

June 11 through June 13, 1965: Treating oil emulsion in tanks.

June 13, 1965: Started unit pumping.

June 14 through June 21, 1965: Well pumping approximately 48 barrels of oil per day. Casing pressure 450 pounds.

June 30, 1965

June 25, 1965: Ran fluid level test, found only 117 feet of fluid in the hole above the pump. Well producing approximately 45 barrels of oil per day.

June 27, 1965: Well produced 36 barrels of oil per day by pumping.

From the recent testing information, the potential of this well is gradually declining. Before running the fluid level test it was thought that the pumping potential of approximately 48 barrels of oil per day was due to maintaining the casinghead pressure around 400 pounds per square inch. After bleeding off the casing pressure and pumping the well, we found the producing potential did not increase. This means that the fluid is not entering the well bore too well. The present water cut is only 10%. It is possible that the productive capacity of this well can be increased by fracturing the formation and improving the permeability of the Mississippi formation adjacent to the well bore.

Before recommending any additional treatment on this well, we will continue to produce the well in the present manner for at least one more month. During this time, the water cut percentage and the productive capacity can be observed. If the water cut percentage does not increase materially and the productive capacity decreases at a rate comparable to that occurring in the first month, we will probably recommend stimulation of the Mississippi reservoir with a fracture treatment. At any rate we will keep you advised.

If there is any question concerning this operation, please let us know.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.



C. Arnold Brown

CAB/pjl

cc: Mr. Russell T. Lund
1450 West Lake Street
Minneapolis, Minnesota

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

June 14, 1965

Mr. Richard M. Nixon
20 Broad Street
New York, New York

Re: Spacing Application
Northeast Sharon Field
Barber County, Kansas

Dear Mr. Nixon:

Enclosed is a copy of the application for 80 acre spacing in the Northeast Sharon Field filed with the Kansas Corporation Commission. You may retain this copy for your files.

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.


C. Arnold Brown

Enclosure

CAB/pjl

ROBERT C. FOULSTON (1889-1947)
GEORGE SIEFKIN (1895-1964)
GEORGE B. POWERS
CARL T. SMITH
JOHN F. EBERHARDT
STUART R. CARTER
ROBERT C. FOULSTON
MALCOLM MILLER
ROBERT H. PARTRIDGE
ROBERT M. SIEFKIN
RICHARD C. HARRIS
GERALD SAWATZKY
DONALD L. CORDES
ROBERT L. HOWARD

CHARLES J. WOODIN
MIKEL L. STOUT
RONALD K. BADGER
BENJAMIN C. LANGEL

COPY FROM

FOULSTON, SIEFKIN, POWERS, SMITH & EBERHARDT

SUITE 600 FOURTH NATIONAL BANK BUILDING

AMHERST 4-0372

WICHITA, KANSAS 67202

June 9, 1965

RECEIVED

JULY 11 1965

KWB, INC.

Mr. Raymond B. Harvey, Secretary
State Corporation Commission
State Office Building
Topeka, Kansas

In re: In the matter of the application of
K W B Oil Property Management, Inc.
for an order establishing 80-acre
well spacing and well location re-
strictions in the Mississippi for-
mation, being a separate common
source of supply in the Sharon West
Mississippi Oil Pool, Barber County,
Kansas, and for the establishment
of appropriate allowables for wells
drilled therein.

Dear Mr. Harvey:

I enclose herewith five copies of the above cap-
tioned application which I would appreciate your filing at
once.

It is my understanding that this matter can be
heard here at Wichita on either June 29 or 30 and we,
accordingly, request that it be heard on either of those
two dates.

Yours truly,

STUART R. CARTER

OF FOULSTON SIEFKIN POWERS SMITH & EBERHARDT

SRC:dgl
Encl.

cc: Mrs. Joyce R. Tyler
Mr. John Roberts--encl.

bcc: KWB Oil Property Manage-
ment, Inc.--encl
Sierra Petroleum Co., Inc.
encl

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the matter of the application of
K W B Oil Property Management, Inc.
for an order establishing 80-acre
well spacing and well location re-
strictions in the Mississippi for-
mation, being a separate common
source of supply in the Sharon West
Mississippi Oil Pool, Barber County,
Kansas, and for the establishment
of appropriate allowables for wells
drilled therein.

DOCKET NO. _____-C
(C-_____)

CONSERVATION DIVISION

A P P L I C A T I O N

COMES NOW K W B Oil Property Management, Inc.,
and for its application herein alleges and states:

FIRST: That it is a producer of
oil and casinghead gas in what is known as the Sharon West
Mississippi Oil Pool in Barber County, Kansas, and is the
owner and operator of oil and gas leases covering portions
of the lands in said field.

SECOND: That the Mississippi for-
mation is a common source of supply of crude oil and casing-
head gas and is considered at the present time to cover and
to be lying in and under the following described area, to-wit:

The Southwest Quarter (SW $\frac{1}{4}$) and the West
Half (W $\frac{1}{2}$) of the Northwest Quarter (NW $\frac{1}{4}$)
of Section Thirteen (13); the East Half
(E $\frac{1}{2}$), the East Half (E $\frac{1}{2}$) of the Northwest
Quarter (NW $\frac{1}{4}$), the East Half (E $\frac{1}{2}$) of the
Southwest Quarter (SW $\frac{1}{4}$), and the Southwest
Quarter (SW $\frac{1}{4}$) of the Southwest Quarter (SW $\frac{1}{4}$)
of Section Fourteen (14); the Northeast
Quarter (NE $\frac{1}{4}$) of Section Twenty-three (23);
and the Northwest Quarter (NW $\frac{1}{4}$) of Section
Twenty-four (24); all in Township Thirty-
two (32) South, Range Ten (10) West, Barber
County, Kansas,

which said area is outlined by hatched lines on the plat which is marked Exhibit "A" and attached hereto and made a part hereof.

THIRD: That said Mississippian formation in the Sharon West Mississippi Oil Pool is a common source of supply of crude oil and casinghead gas within the purview of and as contemplated by Chapter 55, Article 6, G. S. 1949, as amended; and that the Mississippian formation is the productive formation encountered in said pool at the approximate depth of 4385'.

FOURTH: That to date, Applicant has completed its M. M. Lies No. 1 well in the Mississippi formation in said pool; that said discovery well is located in the approximate center of the Northeast Quarter ($NE\frac{1}{4}$) of the Southeast Quarter ($SE\frac{1}{4}$) of Section 14-32S-10W; that said well was commenced on April 19, 1965, and completed on May 17, 1965; that said well was drilled to a total depth of 4400' with 8-5/8" surface casing set at 208' with 175 sacks of cement and with 5-1/2" casing set at approximately 4400' with 100 sacks of cement; that said well was completed in the Mississippi formation with the top of the producing zone being at 4375' but with the top of the producing perforations being at 4385'; that the Mississippian was perforated from 4385' to 4389' with eight holes acidized with 500 gallons of mud acid and then placed on production; that the initial potential was swabbing and flowing 125 barrels per day.

FIFTH: That one well will produce all of the economically recoverable oil and casinghead gas from the Mississippi formation underlying 80 acres of land in the area particularly described above and that the adoption by this Commission of an 80-acre spacing pattern for wells

producing oil from the Mississippi formation in the area above described, together with appropriate well location restrictions and acreage attribution restrictions, and the establishment by this Commission of appropriate allowables for all wells drilled in said area will permit the most efficient utilization of the reservoir energy, permit the orderly development of said common source of supply, prevent waste as defined by law, permit the recovery of a greater quantity of oil from said common source of supply and will protect correlative rights and eliminate the need for drilling unnecessary wells, all to the benefit of the royalty owners and the owners and operators of oil and gas leases, the State of Kansas and the public generally.

SIXTH: That in order to prevent waste, protect correlative rights, prevent disproportionate production and to promote the orderly development of the wells and leases in said pool, and in order to comply with existing statutes that provide for orderly development and well spacing, and in consideration of the oil reserves in said Mississippian formation and the cost of drilling, equipping and producing wells drilled therein, it is necessary in the interest of the prevention of waste and the further orderly development of the area above described that an 80-acre well spacing pattern and well location and acreage attribution restrictions (including, among other things, that the prescribed well location shall be the approximate center of the NE $\frac{1}{4}$ and the SW $\frac{1}{4}$ of each quarter section of a governmental section with a tolerance of 150' from the center of the quarter quarter section) be adopted for the pool and that an appropriate allowable for the well drilled and all future wells to be drilled in said area be established.

SEVENTH: That Applicant and

Sierra Petroleum Company, Inc., are the owners of all of the oil and gas leasehold acreage in the area proposed to be spaced with Applicant being the operator and Sierra Petroleum non-operator; that Applicant files this application on its own behalf and on behalf of said non-operator; that prior to the filing of this application, a copy of the same was forwarded to said non-operator but it was not necessary, for the reason stated, to mail a copy of the application to any other operator.

WHEREFORE, Applicant prays:

1. That this application be docketed and said matter be assigned for hearing at a convenient date to be determined by the Commission;
2. That due notice of said assignment of hearing be given to all interested parties as by law provided;
3. That upon a hearing of said matter, this Applicant be given an opportunity to present the matter hereinabove set forth; and
4. That upon the hearing hereof, the Commission grant, issue and enter an order consistent with the evidence adopting an 80-acre well spacing pattern and well location and acreage attribution restrictions in the area above described for oil production from the Mississippian formation and fixing appropriate allowables for the well drilled and any other wells to be drilled in said area.

K W B OIL PROPERTY MANAGEMENT, INC.

By: _____
Stuart R. Carter, Its Attorney
of FOULSTON SIEFKIN POWERS SMITH &
EBERHARDT
600 Fourth National Bank Building
Wichita, Kansas 67202

STATE OF KANSAS }
SEDGWICK COUNTY } ss:

STUART R. CARTER, of lawful age, being first duly sworn, upon oath states:

That he is one of the attorneys of record for Applicant; that he has read the above and foregoing application; and that the statements therein contained are true to the best of his knowledge and belief.

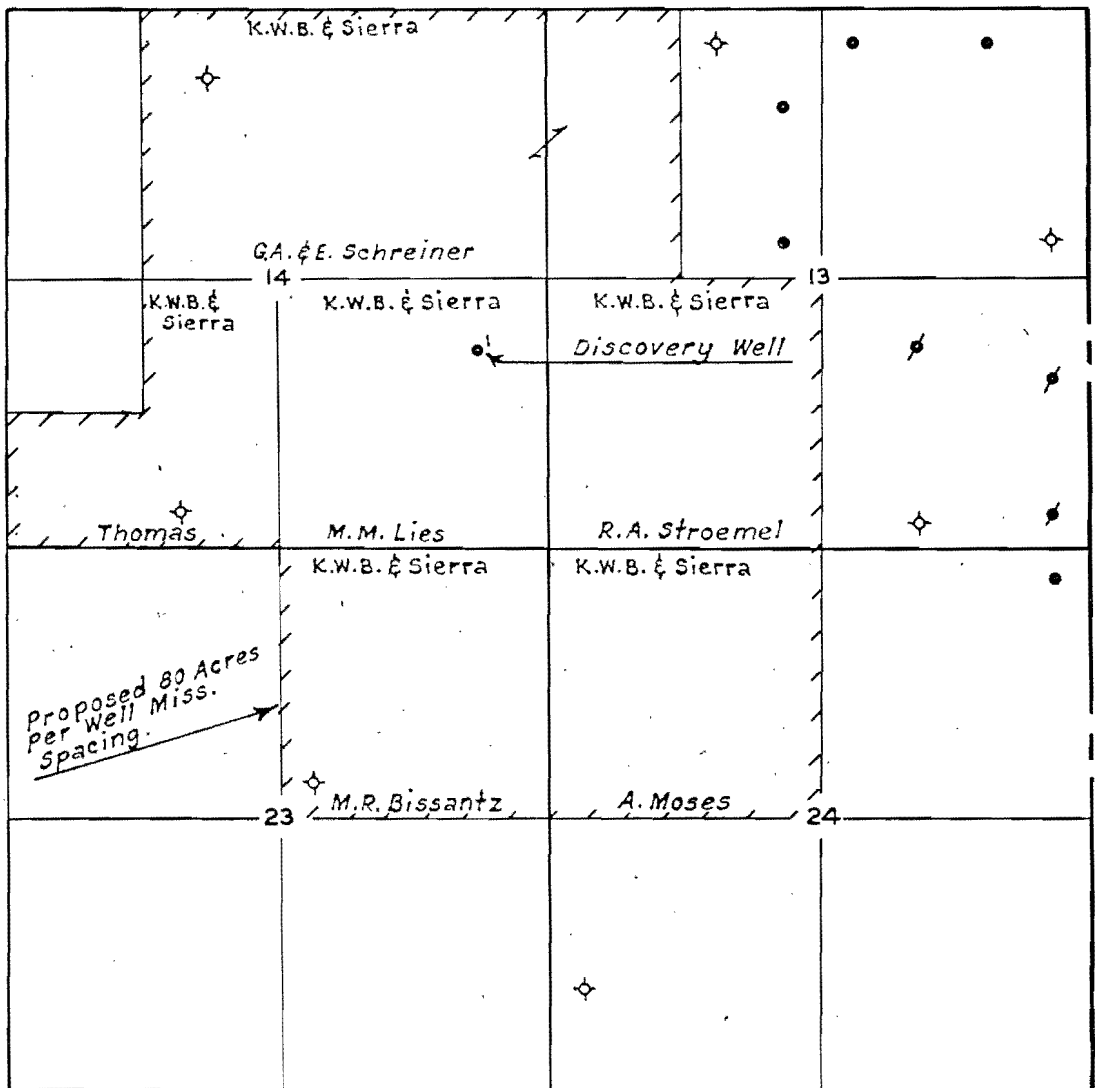
Stuart R. Carter

Subscribed and sworn to before me, a Notary Public in and for said county and state, this 10th day of June, 1965.

Dorothy G. Lindsay
Notary Public

My Commission expires:
August 10, 1967

R. 10 W.



T. 32 S.

- MISSISSIPPI OIL WELL
- ⚡ ABANDONED WELL
- ◇ DRY HOLE

NORTHEAST SHARON AREA
BARBER COUNTY KANSAS
K.W.B.
OIL PROPERTY MANAGEMENT
TULSA OKLA.

KEPLINGER AND WANENMACHER

PETROLEUM ENGINEERS

KENNEDY BUILDING

TULSA 3, OKLAHOMA

June 10, 1965

Mr. Russell T. Lund
1450 West Lake Street
Minneapolis, Minnesota

Re: North Dodge City Prospect
Secs. 14, 15, 16, 21, 22, 23, 26 & 27
Township 25 South, Range 24 West
Ford County, Kansas

Dear Mr. Lund:

Confirming telephone conversation of June 9, 1965, we have recommended that you participate in the drilling of the above captioned exploratory prospect. You agreed to participate on the basis outlined below.

You will receive one-quarter interest in oil and gas leases totaling about 2,300 acres. You will pay one-third of the cost of acreage and seismograph work (\$16,000) and the cost of drilling a well to a depth of 5400 feet at an estimated cost of \$25,000. You will pay one-quarter of the cost of casing, completing and equipping the well if indications of commercial amounts of oil and gas are obtained. You will pay one-quarter of the expense of subsequent wells.

Sun has purchased checkerboard leases on the prospect subject to the drilling of the test well. The \$9,600 paid by Sun for this acreage will be credited to the cost of the well and acreage. Your share, after this credit, will cost approximately \$10,500 with the exploratory well drilled to the objective depth. Sun's agreement provides for drilling to a depth of 5400 feet.

Approximately one-half of the oil and gas leases in which you will earn an interest are subject to 1/16 of 7/8 overriding royalty and the remainder is unencumbered by overrides. The leases expire in 1973 and 1974. K W B will supervise the drilling and assume operation.

The main objective is the Mississippi lime, the top of which is at an approximate depth of 4900 feet. This formation yields oil in several fields to the north in Hodgeman and Ness counties. The closest fields are 8 to 10 miles from the prospect. Subsurface control and seismograph data indicate domal structure underlying the prospect. The upper 150 feet of the Mississippi lime has porous

Mr. Russell T. Lund
Page 2
June 10, 1965

zones which carried showings of oil in nearby dry holes. Shallower formations, particularly the Marmaton or Kansas City limestone, produce locally in this area and offer speculative possibilities on the prospect.

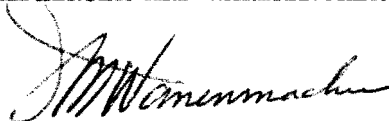
It is our opinion that there is a one out of five chance of encountering profitable oil production on this prospect.

The arrangements for drilling the exploratory well will be handled by Arnold Brown ^{Martin + Keller} of K W B. Mr. Brown will ~~contact you and other participants in the near future.~~ *assume operations for KWB if and when casing is run.*

Attached is a map showing leases in which you will earn an interest and the leases purchased by Sun subject to the drilling of the test well in the NE/4 SW/4 Section 22.

Very truly yours,

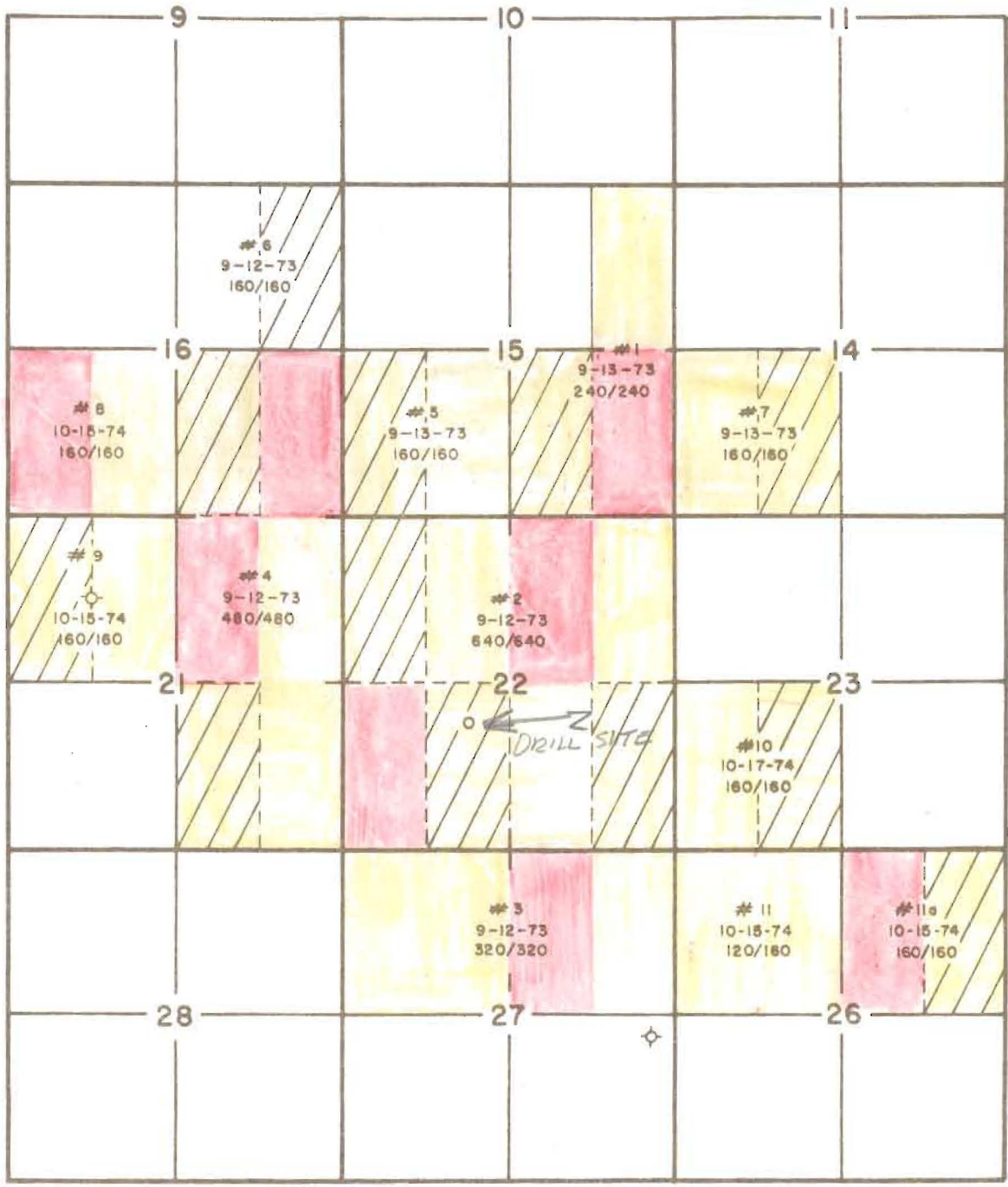
KEPLINGER AND WANENMACHER



J. M. Wanenmacher

JMW:adb
Attachment

cc: Mr. C. Arnold Brown
K W B
913 Kennedy Building
Tulsa, Oklahoma 74103



T
25
S

R 24 W

PRECEDENT LEASE.

SUN OIL

SUBJECT TO CR2.

FLEEGER & CARPENTER

ACREAGE MAP

NORTH DODGE CITY PROSPECT

FORD COUNTY, KANSAS

JUNE, 1965

*Logi
V.H.*

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

June 7, 1965



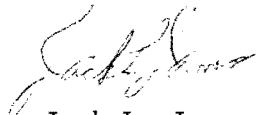
Mr. Richard M. Nixon
20 Broad Street
New York, New York

Dear Mr. Nixon:

Enclosed are insurance certificates reflecting the coverage on our company owned vehicles.

Sincerely,

KWB OIL PROPERTY MANAGEMENT, INC.


Jack L. James

JLJ/pt

Enclosures

KWB
OIL PROPERTY MANAGEMENT, INC.
KENNEDY BUILDING
TULSA, OKLAHOMA 74103

June 4, 1965

Mr. Richard M. Nixon
20 Broad Street
New York City, New York

Re: Operating Agreement
Sharon Area
Barber County, Kansas

Dear Mr. Nixon:

We are enclosing two copies of the operating agreement covering the Sharon area for your execution. Please execute the agreement and return one copy to us for our files. You may retain one copy for your files.

*sent
6-9-65
AV.*

Yours very truly,

KWB OIL PROPERTY MANAGEMENT, INC.

C. Arnold Brown

C. Arnold Brown

Enclosures

CAB/pjl

*RN's Copy
for KWB Oil
firm
other copy signed
& returned 6/4/65*

OPERATING AGREEMENT

THIS OPERATING AGREEMENT made and entered into this FIRST day of MAY, 1965, by and between KWB OIL PROPERTY MANAGEMENT, INC., an Oklahoma Corporation, 913 Kennedy Building, Tulsa, Oklahoma, hereinafter referred to as "Operator" and persons and firms as follows:

<u>NAME</u>	<u>ADDRESS</u>
Russell T. Lund	1450 West Lake Street, Minneapolis, Minnesota
Richard M. Nixon	20 Broad Street, New York City, New York
Sierra Petroleum Co., Inc.	1015 Wichita Plaza Building, Wichita, Kansas 67202
C. Arnold Brown	913 Kennedy Building, Tulsa, Oklahoma
C. H. Koplinger	225 Kennedy Building, Tulsa, Oklahoma
J. H. Wenzelocher	225 Kennedy Building, Tulsa, Oklahoma

hereinafter referred to as "Non-Operators", owners of the oil and gas leases described herein.

WITNESSETH:

WHEREAS, Non-Operators are the owners of the oil and gas leases described in Section I hereof and desire to retain the professional services of Operator to manage, develop, supervise, operate, maintain, protect and preserve such oil and gas leases; and

WHEREAS, Operator desires to render such professional services to Non-Operators.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, Operator and Non-Operators agree as follows:

I

Operator, for, on behalf of and upon consultation with all parties hereto or their authorized representatives, shall manage, develop, supervise, operate, maintain, protect and preserve the following oil and gas leaseholds (Properties) which cover the following described lands situated in Barber County, Kansas,

to-wit:

SEE ATTACHED EXHIBIT "B"

II

1. Operator shall pump all wells now or hereafter located on said PROPERTIES; and
2. Operator shall superintend all producing, injection and disposal facilities now or hereafter located on said PROPERTIES; and
3. Operator shall gauge all tanks and render all gauge reports; and
4. Operator shall prepare and furnish to any duly constituted authority having jurisdiction in the premises any and all reports, statements and information as may be required with respect to PROPERTIES; and
5. Operator shall pay all taxes, either State or Federal, which may be legally assessed against the respective interests in PROPERTIES or the oil and gas produced therefrom of each of the parties hereto, whether in the form of severance or production taxes or otherwise and including ad valorem taxes, if any; and any said taxes so paid by the OPERATOR shall be treated as a cost or expense connected with the operation and development of the PROPERTIES in accordance with

PART III hereof; and

6. Operator shall deliver all production to purchasers' tank trucks or pipeline facilities; and

7. Operator shall verify the quantities delivered and make temperature and BS&W corrections thereof; and

8. Operator shall dispose of all salt water and other waste materials; and

9. Operator shall maintain all equipment necessary and incidental to the production of oil from the properties now or hereafter located on said PROPERTIES; and

10. Operator shall render all technical assistance to enhance, maintain, preserve and protect the production of oil from the PROPERTIES; and

11. Operator shall prepare and render a "Monthly Summary of Operations" which shall include, inter alia, the following:

- (a) Profitability analysis for the leaseholds which are or may hereafter become a part of this Agreement, showing production, income, operating cost, equipment, expenditures, intangible development cost and operating profit;
- (b) Analysis of production from the leaseholds showing changes and work done on the various PROPERTIES during the month;
- (c) Summary of operations and review of all drilling wells during the month;
- (d) From time to time, as the occasion requires, include technical recommendations for the enhancement, maintenance, preservation and protection of the production of oil;

12. Operator shall prepare and render an annual report on a calendar year basis which shall encompass the previous twelve monthly reports previously prepared and rendered to Non-Operators; and

13. Operator shall set up and maintain a joint account for Non-Operators and to charge to said account the cost and expenses incurred by Operator in accordance with this Agreement and Exhibit "A" attached hereto and made a part hereof; and

14. Operator shall keep, or cause to be kept, accurate books of account showing all items of cost or expense incurred in the operation and development of PROPERTIES; and

15. All charges shall be made and paid in accordance with and upon the basis of the provisions of Exhibit "A" attached hereto and made a part hereof, except that in case of any conflict between the provisions of said Exhibit and the provisions contained in the body hereof the latter shall prevail and govern; and

16. Operator shall prepare and render billings to the Non-Operators; and

17. Operator shall prepare and render in advance a quarterly budget commencing on the first day of the second month after the effective date of this agreement and from time to time supplement said quarterly budget to indicate or cover extra-ordinary or unforeseen requirements which were not contemplated when the regular quarterly budget was prepared and rendered; and

18. Operator shall maintain all other records reasonable and necessary to the proper and efficient performance of the services to be rendered by Operator, hereunder;

19. All costs and expenses in connection with the operation and development of PROPERTIES shall be paid by Operator, who shall at all times keep the respective interests of the parties hereto in and to PROPERTIES and the equipment thereon free and clear of all liens and encumbrances, and such costs and expenses shall be charged to, and borne by, the parties hereto in proportion to the interest owned by each.

III

Operator shall charge the joint account and Non-Operators agree to pay to Operator the following fees and expenses:

1. \$35.00 per well per month for the first five (5) wells.

\$30.00 per well per month for wells over five (5).

2. For the purpose of computing the number of wells a "chargeable well" shall be deemed to include any producing oil well, producing gas well, salt water disposal well, water injection well, gas injection well, and water supply well and, in addition, shall include any such well temporarily shut down for less than a full calendar month. The term "chargeable well" however, shall not include any well being drilled, deepened or reworked or any well permanently shut down or out of service for a full calendar month. A dually completed well shall count as two wells. The fee charged shall be adjusted each month based upon the total

number of chargeable wells.

3. The foregoing fees shall not include any direct costs incurred by Operator in connection with the services to be rendered hereunder. These direct costs normally include but shall not be limited to pumper wages and transportation, utilities, pulling expenses, roustabout labor, hauling, equipment repairs, work-over expenses, taxes and insurance. These direct costs are more completely defined in the Accounting Procedure attached hereto as Exhibit "A".

4. In addition, and except as provided for in all paragraphs in Section II above and in all paragraphs in Section III above, the foregoing fees shall not include the supervision of the drilling, deepening, re-working or completing of wells. A fee based upon seven and one-half percent (7½%) of the total funds expended will be charged for such supervisory services and shall include services of a qualified engineer or production man, which services will not be provided or undertaken without the approval, in advance, of Non-Operators.

5. For a special engineer or geological service in connection with the operation of said PROPERTIES, and not herein specifically provided for, or required in connection with unitization or special reservoir studies related to projects not within the scope of this Agreement, such as new water injection or pressure maintenance or water disposal projects, a per diem fee of \$100.00 per day, plus all out-of-pocket expense paid by Operator, such as printing, telephone, travel and outside statistical data accumulation by personnel other than Operator will be included. Services of the nature provided for in this paragraph shall not be undertaken without the approval in advance of Non-Operators.

6. All out-of-pocket and travel expenses other than trips to the PROPERTIES paid or incurred by Operator in rendering services hereunder described.

7. Operator, with approval of Non-Operators, may have the right from time to time to demand and receive from Non-Operators payment in advance of their respective shares of the estimated amount of costs to be incurred by Operator during the next succeeding month, which demand must be accompanied by an itemized statement of such estimated cost together with invoices for Non-Operators' share thereof. Non-Operators shall remit to Operator their share of such estimated expenditures on or before the 10th day of the month for which such demand is made. This demand may include Operator's fee for such month.

IV

Operator shall not incur or make any single expenditure amounting to more than ~~\$500.00~~ without the consent of the Non-Operators, provided that when Operator is authorized to drill any well, such authority shall include authority to make all necessary and reasonable expenditures in connection with the drilling, equipping and completing of such well, including the installation of pumping equipment, without the necessity of obtaining Non-Operators' consent to separate items of expenditure.

V

All wells drilled on PROPERTIES shall be drilled on a competitive contract basis at the usual rate prevailing in the field in which said lease is located. It is understood, however, that Operator shall not be required to accept the lowest bid, but is entitled to use his judgement as to what is the lowest best bid, and in that regard has full discretion as to the competency and ability of any drilling contractor to drill any well in a good and workmanlike manner.

VI

To secure the Operator or any other party hereto for money advanced on behalf of another party or parties hereto to pay sums properly due in the development and operation of PROPERTIES, the Operator, or such party so making such advances, shall have a first and prior lien upon the entire interest owned by the party or parties for whom such advancements are made, including a like lien on the latter's share of all equipment and production, to the full extent of any such sums so advanced and not paid by the party or parties for whom such advancements are made, together with interest thereon at six percent (6%) per annum; and the Operator, or such party so making such advancements, may file with any pipeline or purchasing company purchasing oil or gas from PROPERTIES an affidavit stating that such indebtedness exists and the amount thereof and that the lien provided for is asserted, which affidavit shall be sufficient authority for such pipeline or purchasing company to make payment to the Operator or such other party so making such advances, of all of the proceeds accruing to the interest of such delinquent party until the amount of such lien has been paid in full, and any such

pipeline or purchasing company making payments in accordance with the terms hereof shall be released of any liability to any such delinquent party by reason of compliance with the provisions hereof, provided, however, that such pipeline or purchasing company shall not make such payments, as herein provided, until after the expiration of thirty (30) days from the filing of such notice. Operator, or such party so making such advances, shall immediately notify such delinquent party in writing if and at such time as any affidavit is so filed with any pipeline or purchasing company and shall enclose a copy of such affidavit with such notice. It is further agreed that the provisions of this paragraph shall be cumulative of any and all other remedies which Operator, or such party so making said advances, may have for enforcing the claim for such indebtedness.

VII

Operator shall conduct all producing operations in a proper, efficient and workman like manner in accordance with good and modern oil field practice, conforming to all applicable laws, rules, orders and regulations passed by any competent body asserting jurisdiction. Non-Operators grant Operator the right of ingress and egress to the PROPERTIES or the wells now or hereafter located thereon, and if necessary, Non-Operators shall give Operator such written authorization as may from time to time be required for such access.

VIII

Operator is authorized and agrees to carry at the expense of Non-Operators the following insurance:

1. Workmen's Compensation Insurance, including Employer's Liability, in compliance with Workmen's Compensation laws in the state in which the premises are located;

2. General Public Liability and Property Damage Insurance with limits of not less than \$100,000.00 for injury to or death of one person and not less than \$300,000.00 covering injuries to or death of more than one person of one accident, and not less than \$50,000.00 accidental of damage to property of Non-Operators for each accident and \$100,000.00 aggregate limit:

3. Automotive Public Liability and Property Damage in amount of not less than \$100,000.00 for injuries to one person, and not less than \$300,000.00 for injuries in one accident; and Automotive Property Damage Insurance with a

limit of not less than \$10,000.00;

4. Such additional insurance as deemed necessary by Non-Operators. All insurance coverage required hereby, shall be carried at the expense of Non-Operators, except for premiums for Automobile Public Liability and Property Damage Insurance on Operator's fully owned equipment, which charges will be covered by the flat rate charges assessed the Non-Operators for such charges. Operator will not carry fire, explosion, windstorm, or other property hazard insurance nor underground damage liability insurance, covering operations hereunder, unless so requested by Non-Operators.

IX

Operator shall not be liable to Non-Operators for any loss of the PROPERTIES, production or revenue caused by war, strikes, tornadoes, floods, governmental priorities on materials or other governmental restrictions, inability to obtain suitable equipment or labor, resulting from any other causes not due to Operator's failure to exercise reasonable diligence in the performance of Operator's obligations hereunder. The judgement and discretion of Operator shall be in accordance with the Reasonable Prudent Operator Rule and that rule shall define the Operator's liability to Non-Operators for all acts of the Operator hereunder.

X

Each of the parties hereto shall always have the right to take in kind or separately to dispose of his or its proportionate share of the oil, gas and other minerals produced from the PROPERTIES, exclusive of production which may be used in development and producing operations on said PROPERTIES and in preparing and treating oil for marketing purposes and production unavoidably lost. On all sales each party shall execute any division orders or contracts of sale necessary or appropriate in connection with the disposition of his or its interest in the production from the premises, and shall be entitled to receive directly payment for his or its proportionate share of the proceeds from the sale of said production. Any extra expenditure incurred by the taking in kind or separate disposition by any party hereto, of his or its proportionate share of the production, shall be borne by such party.

The Operator may dispose of Non-Operators' share of production subject

to the following: (1) if disposed under a contract of sale, such contract cannot be for a period of time in excess of the minimum needs of the industry, provided, however, in no event can such contract of sale covering Non-Operators' share of production be for a longer period than one (1) year; and (2) the right of Operator to dispose of Non-Operators' share of production, and any contract of sale covering Non-Operators share of production, shall be subject to termination at the will of the Non-Operators. In the event that the parties hereto shall sell or dispose of their respective shares of such production to the same purchaser, each party hereto shall be entitled to receive payment for its share directly from the purchaser.

XI

In the event Non-Operators own a working interest in lands other than the said lands which they desire to have brought under this Agreement, they may commit such lands to this Agreement, subject to the Agreement of all parties hereto as to any adjustment in the fees payable to Operator as a result of such commitment. Upon such agreement being reached and evidenced by a memorandum signed by the parties hereto, the said lands as herein defined shall be deemed to include the additional lands committed and the fees payable to Operator shall be adjusted accordingly.

XII

All personnel provided by Operator in performance of its duties under this Agreement shall be and remain the employees of Operator and not of Non-Operators, and the selection of such employees, their hours of labor, and the compensation to be paid to them, shall be determined by Operator, subject to the approval of Non-Operators.

XIII

The liability of the parties hereunder shall be several, and not joint or collective. Each party shall be responsible only for his or its obligations, as herein set out, and shall be liable only for his or its proportionate share of the cost of developing and operating said leasehold estate. It is understood and agreed that the rights and obligations of the respective parties hereto shall be that of independent contractors under the terms and provisions of this agreement

and not that of a mining or any other partnership, and none of the parties shall have or be subject to any partnership rights or obligations.

XIV

Each participant elects to be excluded from the application of all of Sub-Chapter K, of Chapter 1 of Sub-title A of the Internal Revenue Code of 1954, in accordance with Section 761 thereof.

XV

Except with reference to calculation of fees payable to Operator under Section III (which shall be calculated on the basis of chargeable wells located on said lands as a whole), the term, "joint account" as used herein shall be deemed to refer to all of the leases covered hereby and all charges and credits to the joint account shall be made and accounted for with reference to all leases affected thereby and shall be borne and shared by the Non-Operators in accordance with their ownership of such leases. Charges or credits identifiable with a particular well shall be charged or credited, as the case may be, to such well.

XVI

It is further agreed that the parties hereto who collectively own a majority interest in and to PROPERTIES, or Operator, may change the designation of the Operator, provided, however, that said parties, or Operator, wishing to change Operator shall give written notice thereof to all parties to this agreement at least sixty (60) days prior to the proposed effective date of change; and provided further that Operator shall not be relieved of his or its obligation as Operator hereunder or be required to surrender operations of the PROPERTIES pursuant to this paragraph, before the expiration of six (6) months from the time he has taken over such operations; and provided further, if the operation of the PROPERTIES is changed as herein provided, the owners of a majority of interest in the PROPERTIES shall promptly select and designate a new Operator of said PROPERTIES who shall, not later than the date fixed for the termination of the operation of said PROPERTIES by the Operator herein named, take and assume the operations of said PROPERTIES and any such new Operator so designated shall operate the PROPERTIES subject and pursuant to all of the terms and conditions of this Operating Agreement.

XVII

Until changed by appropriate notice in writing, all notices, reports and other correspondence required or made necessary by the terms of this operating agreement shall be deemed to be properly served and addressed if and when sent by mail or telegram to the addresses set forth in the preamble hereof.

XVIII

This agreement shall not be varied except with the written consent of all of the parties hereto; time is strictly of the essence in construing each and every provision herein contained. In the event one or more of the provisions herein contained is held invalid by any court of competent jurisdiction, the same shall in no manner effect the validity of any of the other provisions so contained herein; and this Agreement shall be construed in accordance with the Laws of the State of Oklahoma.

All of the terms and provisions of this agreement are hereby expressly made subject to all valid rules and regulations of any duly constituted authority having jurisdiction in the premises. In the event that this agreement or Exhibit "A" hereto attached is silent on any matter arising hereunder then the standard usages and customs prevailing in the area shall be applicable thereto.

XIX

Any party hereto shall have the right to sell, transfer or assign his or its interest, or any portion thereof, in PROPERTIES, or the production therefrom, but the purchaser, transferee or assignee shall be bound and governed by the terms and provision hereof, and the seller, transferor or assignor shall not be relieved of any responsibility or liability under the terms hereof which has accrued prior to such sale, transfer or assignment; however, seller, transferor or assignor, shall thereby be relieved of all obligations or liabilities hereunder accruing thereafter: such party so selling, transferring or assigning shall give prompt written notice to Operator of his or its intent to do so at least five (5) days prior thereto, and upon request shall furnish Operator a photostatic copy of the instrument or instruments involved, disclosing the agreement of the transferee to be bound by the terms and provisions hereof.

XX

All parties hereto shall have access, at all reasonable times, to the entire PROPERTIES and to all information pertaining to wells drilled, production secured, oil marketed and to the books, records and vouchers relating to the operation of the premises; and Operator shall, upon request, furnish the parties hereto with weekly gauge and run tickets.

XXI

The term "oil and gas" wherever used in this agreement shall be construed to include casinghead gas and any other mineral deposit covered by said oil and gas lease or leases.

XXII

Each of the parties hereto hereby constitutes and appoints the Operator hereunder his or its lawful agent and attorney-in-fact for the sole and only purpose of executing upon his or its behalf all applications, and instruments incident thereto, directed to the proper governmental agencies or authorities, for such authority, permit, or permits as may be necessary or convenient for the drilling, completing, deepening, plugging, abandoning, perforating, shooting, acidizing, reworking, operating, producing, repairing, maintaining, use as a gas or water input well, or use as a salt water disposal well, of any well drilled or to be drilled upon PROPERTIES, to the same extent and with the same force and effect, within the scope of said appointment, as though said applications and instruments were executed and/or sworn to by each party hereto individually, hereby ratifying and confirming all that said attorney has done or shall do in the premises by virtue hereof.

XXIII

This agreement, drawn in counterparts, shall be binding upon the parties hereto, their heirs, legatees, executors, administrators, successors and assigns, upon execution of one or more of such counterparts by each of the parties set forth in the preamble hereof.

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

OPERATOR

ATTEST:

KWB OIL PROPERTY MANAGEMENT, INC.

Patricia J. Brown

BY C. Arnold Brown
C. Arnold Brown, President

ATTEST:

NON-OPERATOR

C. Arnold Brown

STATE OF Oklahoma)
COUNTY OF Tulsa) SS

BEFORE ME, a Notary Public, within and for the State and County aforementioned, personally appeared C. Arnold Brown and Patricia J. Brown, to me personally known, who being by me duly sworn, did each say that C. Arnold Brown is the President and Patricia J. Brown is the Secretary of PWB Oil Property Management Inc., a Corporation, and that the seal affixed to the foregoing and annexed instrument is the Corporate seal of said Corporation, and that said instrument was signed and sealed in behalf of said Corporation by authority of its board of directors; and said C. Arnold Brown and Patricia J. Brown duly acknowledged that they each had in their said official capacities executed the foregoing instrument as the act and deed of the said Corporation for the consideration and purposes therein mentioned as set forth.

WITNESS my hand and official seal this 3rd day of May, 19 65.

My Commission Expires: February 8, 1969
P. Joanne Leman
Notary Public

STATE OF)
COUNTY OF) SS

BEFORE ME, a Notary Public, within and for the State and County aforementioned, personally appeared _____ and _____, to me personally known, who being by me duly sworn, did each say that _____ is the _____ and _____ is the _____ of _____, a Corporation, and that the seal affixed to the foregoing and annexed instrument is the Corporate seal of said Corporation, and that said instrument was signed and sealed in behalf of said Corporation by authority of its board of directors; and said _____ and _____ duly acknowledged that they each had in their said official capacities executed the foregoing instrument as the act and deed of the said Corporation for the consideration and purposes therein mentioned as set forth.

WITNESS my hand and official seal this _____ day of _____, 19 _____.

My Commission Expires: _____

STATE OF)
) SS
COUNTY OF)

BEFORE ME, a Notary Public in and for said State and County, on this _____ day of _____, 19____, personally appeared _____ to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the use and purpose therein set forth.

My Commission Expires: _____

Notary Public

STATE OF)
) SS
COUNTY OF)

Before me, a Notary Public in and for said State and County, on this _____ day of _____, 19____, personally appeared _____ to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the use and purpose therein set forth.

My Commission Expires: _____

Notary Public

STATE OF)
) SS
COUNTY OF)

BEFORE ME, a Notary Public in and for said State and County, on this _____ day of _____, 19____, personally appeared _____ to me known to be the idnetical person who executed the within and foregoing instrument, and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the use and purpose therein set forth.

My Commission Expires: _____

Notary Public

STATE OF)
) SS
COUNTY OF)

BEFORE ME, a Notary Public in and for said State and County, on this _____ day of _____, 19____, personally appeared _____ to me known to be the identical person who executed the within and foregoing instrument, and acknowledged to me that _____ executed the same as _____ free and voluntary act and deed for the use and purpose therein set forth.

My Commission Expires: _____

Notary Public

EXHIBIT "A"

Attached to and made a part of the Operating Agreement dated May 1, 1965, between THE OIL PROPERTY MANAGEMENT, INC. and RUSSELL T. LIND, RICHARD M. HENK, SIERRA PETROLEUM CO., INC., C. ARNOLD HENK, C. E. REPLINGER, AND J. M. WANNENMACHER owners of acreage described in Exhibit "B"

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.....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.

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 ten percent (10%) 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.

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 BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		All Wells Over Ten
	Each Well	First Five	Next Five	
0 - 5,000	\$200.00	\$35.00 per well	\$30.00 per well	

Said fixed rate (shall) ~~include~~ include salaries and expenses of production foremen, ~~except for drilling and workover wells. Charges for foremen shall be made on a per diem basis as noted in the Operating Agreement.~~ **except for drilling and workover wells. Charges for foremen shall be made on a per diem basis as noted in the Operating Agreement.**

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:**
- A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 1% of total cost.
 - C. Total cost of \$100,000 or more, 1% of the first \$100,000 plus 1% of all over \$100,000 of total cost.
- Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
- 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

some 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"

BARBER COUNTY, KANSAS

The Lies Lease, 160 acres, Southwest Quarter (SE/4) Section 14,
Township 32S, Range 10W.

The Schreiner "A" Lease, 80 acres, West Half (W/2) of the Northwest
Quarter (NW/4) Section 13, Township 32S, Range 10W.

The Schreiner "B" Lease, 80 acres, East Half (E/2) of the Northeast
Quarter (NE/4) Section 14, Township 32S, Range 10W.

The Schreiner "C" Lease, 160 acres, West Half (W/2) of the Northeast
Quarter (NE/4); and the East Half (E/2) of the Northwest Quarter (NW/4),
Section 14, Township 32S, Range 10W.

The Stromel Lease, 160 acres, Southwest Quarter (SW/4) Section 13,
Township 32S, Range 10W.

The McCall Lease, 120 acres, Southwest Quarter (SW/4) Section 14,
Township 32S, Range 10W.

The Bissantz Lease, 160 acres, Northeast Quarter (NE/4) Section 23,
Township 32S, Range 10W.

The Moses Lease, 160 acres, Northwest Quarter (NW/4) Section 24,
Township 32S, Range 10W.