JTD RESOURCES, LLC
P. O. BOX 3422
MIDLAND, TEXAS 79702

OIL AND GAS INVESTMENTS

(432) 682-3712 OFFICE
(432) 682-8652 FAX

FACSIMILE TRANSMITTAL FORM

Date: 10/16/07 Time: 8:50 PM

No. of pages (including transmittal form): 51

To: Lynda Townsend / Chesapeake

Fax No.: (405) 879-1450

Comments: Linda-
Attached is a copy of Ex. "B" to the Cross Timbers farmout, together with copies of the conditional letter of Acceptance and Amendment to the farmout you requested. Para. 7.1, Pg. 6 of the farmout refers to Ex "B" as the form of JOA we agreed to use and provides that Farmee shall prepare a JOA identical in form to Ex. "B" for execution by the parties. Due to cessation of production from the initial test well provided for in the original Agreement, that original JOA has terminated. It is our understanding that Cross Timbers' execution of the farmout and its Ex. "B" does bind the parties as to the form of JOA we use, but does not bind Chesapeake to participate in our proposed re-entry. Neither does the letter Chesapeake sent us or the executed AFE. Chesapeake's execution of a new JOA will. By separate fax we are providing you with a marked-up copy of Ex. "B" identifying the changes we propose with the new JOA. Please give them thoughtful consideration and let us hear from you.

Thanks, Dan

From:

Telephone Number: (432) 682-3712
Fax Number: (432) 682-8652

Chesapeake
Rebuttal #3
Case No. 14010

LEONARD RESOURCE INVESTMENT CORPORATION
P. O. BOX 3422
MIDLAND, TEXAS 79702

OIL AND GAS INVESTMENTS

(915) 682-3712 OFFICE
(915) 682-8652 FAX

June 14, 1999

Cross Timbers Oil Company
810 Houston Street, Suite 2000
Fort Worth, TX 76102-6298

Attention: Edwin S. Ryan, Jr.

RE: Farmout Agreement
Nadine Area
Lea County, New Mexico

Gentlemen:

Reference is made to the Farmout Agreement entered into September 1, 1998, by Cross Timbers Oil Company, as Farmor, and Leonard Resource Investment Corporation and H. Scott Davis, as Farmee, covering certain leases owned by Cross Timbers in Sections 28 and 33, T-19-S, R-38-E and in Sections 4 and 9, T-20-S, R-38-E, all in Lea County, New Mexico.

Farmee proposed to drill an 8100' Devonian test on the Contract Acreage, and to spud said test on or before February 15, 1999. Early on, both parties recognized that some of the Farmout Leases had already begun to expire, and that certain key leases would have to be renewed prior to the anticipated spud date. The parties agreed that Leonard Resource could renew or extend the leases, bear all costs associated with such renewal or extensions and offer Cross Timbers the opportunity to participate as to its 25% After Acquired Interest under and by virtue of the AMI provision set forth in Provision No. 18 of the Farmout Agreement. Notification of acquisition of any such After Acquired Interests would not be made until after the Test Well is completed as a producer or plugged as a dry hole.

Capataz Operating, Inc. spudded the Keach No. 1 on February 1, 1999 at a location on the SW/4 SE/4 of Section 4, T-20-S, R-38-E. Proposed to be drilled to 8100' or to a depth sufficient to test the Devonian formation, the Keach No. 1 was TD'd at 7918' in the top of the Devonian on February 20th. 5 1/2" casing was run to 7895', and the Devonian was open-hole tested. The well swabbed sulphur water from the Devonian with no show of oil or gas. Capataz plugged back and attempted to complete the Blinebry through the perforated interval from 5884' to 6070'. This

attempt was likewise unsuccessful as to zone proved too tight to frac. Capataz then plugged back to the San Andres and attempted completion in two separate porosity intervals. Sulphur water with no show of oil or gas was recovered from the lower interval from 4286' to 4294'. Load water with good shows of oil and gas was recovered from 4224' to 4262', and on April 19th, Capataz installed a tank battery and pumping unit and began to pump test this upper zone. Initial recoveries were approximately 15 BO and 65 BW. By May 6th, fluid entry had fallen substantially, and the Keach was pumping 30 BF with less than a 10% oil cut. Capataz has spent the past 30 days re-evaluating the well and its response to the initial acid treatment, and has scheduled an additional 10,000 gallon acid treatment this week.

During this entire period of time, Leonard Resource has continued to renew and extend expiring leases and has negotiated renewal of the Term Assignment from George O'Brien covering the NE/4 of Section 33. Win Ryan has been kept advised of all our efforts. We would like to continue the effort we are making to renew and extend leases and to maintain the lease block in force and effect in order to preserve the option to drill additional test wells.

In order to clarify our respective ownership positions relative to minerals acquisitions and renewal and extension of oil and gas leases and assignments within the established AMI, and to relieve us of the obligation to drill another earning well in the event the Keach No. 1 is plugged as a dry hole, we hereby request that Provisions 3.5 and 3.6 of the Farmout Agreement be amended to reflect that Farmee will earn assignment of an undivided 75% interest in the Drilling Unit Acreage and Outside Acreage whether the Test Well, the Keach No.1, is completed as a producer or as a dry hole.

Your prompt and favorable response to our request will be greatly appreciated.

Very truly yours,

LEONARD RESOURCE INVESTMENT CORPORATION

Dan M. Leonard

Dan M. Leonard, President

ACCEPTED AND AGREED TO
this 24 day of June, 1999

CROSS TIMBERS OIL COMPANY

By: ESR

DML/kal
CrsTmbrs/FOA/NdneArea

Cross Timbers Oil Company

October 20, 1998

RECEIVED
OCT 26 1998
LAND DEPARTMENT

FEDERAL EXPRESS

Leonard Resource Investment Corporation
415 W. Wall, Suite 1620
Midland, Texas 79701
Attn: Mr. Dan Leonard

Re: Farmout Agreement and Conditional Letter of Acceptance
Nadine Area
Lea County, New Mexico

Dear Dan,

Pursuant to our recent discussions, please find enclosed two (2) revised Farmout Agreements dated September 1, 1998, covering the lands shown on Exhibit "H" of the agreement. Upon the execution by you, Scott Davis, and Capataz (operating agreement only), Cross Timbers will execute the agreements subject to your acceptance of the following amendments:

1. Operating Agreement, Article VII.B - Delete lines 43-46.
2. Operating Agreement, Article XV.K - Delete in its entirety.
3. Operating Agreement, Article XV.N - Delete in its entirety.

Please execute both originals of the Farmout Agreement, Operating Agreement and this Amendatory Letter and return to my attention for execution. Please call me at (817)877-2336 with any questions.

Yours very truly,

Vaughn O. Vennerberg, II
Sr. Vice President - Land

Agreed to and Accepted this 23rd day of October, 1998.

Leonard Resource Investment Corporation

BY:
TITLE: PRESIDENT

H. Scott Davis

Capataz Operating, Inc.

BY:
TITLE: PRESIDENT

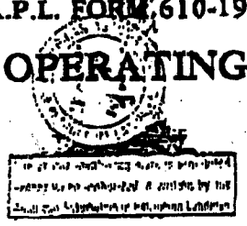
810 Houston St., Suite 2000, Fort Worth, Texas 76102-6298
(817) 870-2800, Fax (817) 870-1671

EXHIBIT "B"

Attached to and made a part of Farmout Agreement dated September 1, 1998 by and between Leonard Resource Investments Corporation and H. Scott Davis, Farmee and Cross Timbers Oil Company, Farmor.

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

September 1, 19 98,

OPERATOR Capataz Operating, Inc.

CONTRACT AREA SE/4 Section 28 and All of Section 33-T19S-R38E;

All of Section 4 (less and except the W/2 SW/4), N/2 NE/4 and

NE/4 NW/4 Section 9-T20S-R38E

COUNTY OR PARISH OF Lea STATE OF New Mexico

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blanks as applicable.

2. Preamble, Page 1 - Enter name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.

5. Article IV.A. - Title Examination - Select option as agreed to by the parties.

6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
   (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."

7. Article V - Operator - Enter name of Operator.

8. Article VI.A. - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.

11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.

14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

15. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

16. Article XIV.B - Governing Law - Enter state as agreed to by parties.

17. Signature Page - Enter effective date.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Capataz Operating, Inc., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine. The word "Party" and "parties" shall always mean a part or parties to this agreement.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", ~~Tax Partnership~~. Memorandum of Operating Agreement

If any provision of any exhibit, except Exhibits "B" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of 1/8 which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price. Notwithstanding the above, Operator shall be responsible for disbursing all royalty and overriding burdens.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C" and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

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ARTICLE IV
continued

☒ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~ reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests: and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well~~ payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses of title incurred, ~~other than those set forth in Articles IV.B.1 and IV.B.2 above~~, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Capataz Operating, Inc. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, ~~no longer owns an interest hereunder in the Contract Area,~~ or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed ~~if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership,~~ by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

3. Vote required: When there is only one (1) non-operator, the vote of two (2) or more parties shall not be required under Article B.1. and B.2.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates of operator shall be performed or supplied at competitive rates and in accordance with customs and standards prevailing in the industry. Operator shall notify non-operators in advance of the use of any such affiliates.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 15th day of February, 19 99, Operator shall commence the drilling of a well for oil and gas at the following location:

Location of its choice in Section 4-T20S-R38E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 8100' or to a depth sufficient to test the Devonian formation, whichever is lesser.

unless granite or other practically impenetrable substance or condition in the hole which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

ARTICLE VI
continued

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply. Notwithstanding the above, all matters related to the drilling of the Initial Well are governed by the terms of Farmout Agreement dated September 1, 1998.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to ~~forty-eight (48)~~ twenty-four (24) hours, ~~exclusive~~ inclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the ~~forty-eight (48)~~ twenty four (24) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the ~~forty-eight (48)~~ twenty four (24) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of ~~forty-eight (48)~~ twenty four (24) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

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ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein. Notwithstanding the foregoing provisions, see Article XV for provisions pertaining to the relinquishment of a non-consenting parties interest when such a non-consenting party elects not to participate in the drilling of a well proposed hereunder.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

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ARTICLE VI
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If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

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ARTICLE VI
continued

required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Operator shall not purchase or sell any other party's share of production without first obtaining the prior written consent of such party.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

* upon thirty (30) days written notice

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance ~~with the provisions of Exhibit "C"~~, less the estimated cost of salvaging and the estimated cost of plugging and abandoning.*** Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

** a reasonable appraisal of its current salvage value

*** and restoring the surface. If the abandoning party's share of the aforesaid salvage value is less than such party's share of estimated costs, the abandoning party shall pay the operator, for the benefit of the non-abandoning parties, a sum equal to the deficiency.

ARTICLE VI
continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand ----------Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Ten Thousand---------- Dollars ($ 10,000.00) but less than the amount first set forth above in this paragraph.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article ~~IV.B.2.~~ IV.B.3.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

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ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, within thirty (30) days of its election to so surrender without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.* If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement, but shall be deemed to be subject to an Operating Agreement identical to this but modified only to reflect the ownership of the acquiring parties. Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for or receives a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

* and restoring the surface. If such party's (assignor's or lessor's) share of the aforesaid salvage value is less than such party's share of estimated costs, the party shall pay the operator, for the benefit of assignees or lessees, a sum equal to the deficiency.

ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~F. Preferential Right to Purchase:~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~ Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded 1981
from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of ~~1954~~ as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, 198
Subtitle "A", of the Internal Revenue Code of ~~1954~~, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

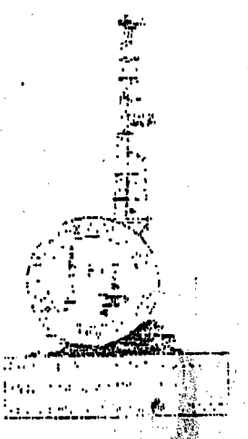
Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

See Attached Pages 14(a)-14(h)



ARTICLE XV

OTHER PROVISIONS

A. CONFLICTS

In the event of a conflict between the provisions of this Article XV and any other provision of this Operating Agreement, the provisions of this Article XV shall control and prevail. This Operating Agreement is being entered into in accordance with the terms and conditions of that certain Farmout Agreement dated September 1, 1998, by and between Cross Timbers Oil Company, Farmor, and Leonard Resource Investment Corporation and H. Scott Davis, Farmee. In the event of any conflict between the terms of this Agreement and the Farmout Agreement, it is provided that the terms of the Farmout Agreement will control and prevail.

B. SEQUENCE OF ELECTIONS:

It is agreed that where a well, which has been authorized under the terms of this Agreement by all parties, or by one or more but less than all parties under Article VI.B.1. or 2., shall have been drilled to the authorized depth, and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the following elections shall control in the order enumerated hereafter:

1.) An election to do additional logging, coring or testing (if less than all parties desire to do such additional logging, coring or testing, the costs, including any additional standby time, shall be borne solely by those parties desiring the work be done and the information gained from the additional logging, coring or testing shall belong to the parties participating in the work);

2.) An election to attempt to rework and/or complete the well at either the objective depth or objective formation;

3.) An election to deepen said well (subject to the prior right of any party wishing to complete to run casing to protect the hole prior to deepening); and

4.) An election to rework, plug back and attempt to complete said well at a lesser depth;

5.) An election to sidetrack the well.

It is agreed, however, that if at the time said participating parties are considering any of the above elections the hole is in such a condition that a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective formation, such election shall be eliminated from the priorities herein above set forth.

If the Operator is not successful with its first (or subsequent) completion attempt(s) and the Operator, or Non-Operator, recommends a completion attempt in another zone, then any previous Non-Consent Parties shall be entitled to notice and the option to participate regardless of their election on a previous completion attempt; however, to have such options such Non-Consent Parties must have participated in all operations leading up to the initial completion attempt (for the purposes hereof, the conducting of sole benefit logging, coring, or testing, as mentioned in 1, above, shall not exclude any other party from the right to participate) and, if they did not pay their share of the costs of casing and cementing in the initial completion attempt, they shall pay their share of the costs of casing and cementing to the zone being contemplated for completion (which shall be

calculated by multiplying the total costs of casing and cementing times the lowest depth of the zone being contemplated for completion divided by the total depth of the casing in the hole). The money received by Operator shall be allocated to the Consenting Parties in the proportion that they paid for the casing and cementing. This option is a recurring right.

C. NOTICES OF MULTIPLE OPERATIONS:

It is specifically provided that no notice shall be given under Article VI.B. that proposes the drilling of more than one well. Further, without the mutual consent of all parties, the provisions of said Article VI.B., insofar as such provisions pertain to notification by a party of its desire to drill a well, shall be suspended for so long as (a) a prior notice has been given that is still in force and effect and the period of time during which the well regarding same may be commenced has not expired, or (b) a well is then drilling hereunder. This section shall not apply to any well or operation which is necessary to maintain in full force and effect a lease, as described in Article XV.G., or to earn an interest in a lease.

D. REMEDIES FOR DEFAULT:

Notwithstanding the provisions of Article VII.B., it is agreed between the parties hereto that in the event any party fails to pay its proportionate share of expenses incurred pursuant to the terms of this Agreement, then the non-defaulting party or parties shall have the option, without prejudice to any other existing remedies, to consider such non-payment to constitute an election not to participate under Article VI.B.2., and /or Article XV.G. (whichever is applicable) to this Agreement in the same manner, to the same extent and with the same force that a failure to reply within the prescribed period constitutes an election not to participate. As long as the defaulting party has unpaid balances outstanding, it shall have no further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder. As to any proposed operation in which it otherwise would have the right to participate, such defaulting party shall have the right to be a Consenting or Participating Party only if it pays all of the amounts to which it is in default, in full, including the penalty amounts provided for in Article VI.B., before the applicable proposed election or decision deadline. This reinstatement option shall not apply to any party who originally defaulted under an operation falling under the terms of Article XV.G.

Notwithstanding anything to the contrary contained in Article VII.C. and/or this Article XV.D.:

1.) Operator shall not have the right to implement any of the remedies with respect to default described in Article VII.C. and/or XV.D. while the Operator and defaulting Non-Operator are engaged in on-going negotiations or discussions conducted in good faith regarding disputed joint billings and/or advances. It being understood, however, that this provision shall not relieve Non-Operator of its responsibility to timely pay that portion of any joint billings and/or advance estimates which are not the subject to any such good faith dispute; and

2.) It is the intention of this Article XV.D. to grant Non-Operators reciprocal rights against Operator in the event Operator, rather than Non-Operator, shall fail or refuse to pay its proportionate share of all costs, expenses and/or advance payments requested of Non-Operators by Operator. Where appropriate within the text of Article VII and this Article XV.D., in order to effectuate this reciprocity, where the word "Operator" is used, the word "Non-Operator" may be substituted therefor, and where the word "Non-Operator" is used, the word "Operator" may be substituted therefor; and

3.) In the event an advance payment and/or invoice remains unpaid thirty (30) days after the delivery thereof by Operator (or, in the case of an advance payment and/or invoice for the estimated cost to be incurred in connection with the drilling and/or completion attempt in a well drilled on the Contract Area, ten (10) days after the delivery thereof), Operator shall notify the relevant Non-Operator, by certified mail, return receipt requested, of any such unpaid amount(s). In case of any such notice, Operator shall send copies of the notice to all other Non-Operators. In the event that such advance payment and/or invoice remains unpaid fifteen (15) days after notice thereof by Operator by certified mail (or, in the case of advance payment and/or invoice for the estimated cost to be incurred in connection with the drilling and/or a completion attempt in a well drilled on the Contract Area, five (5) days after notice thereof), the relevant Non-Operator shall be deemed to be in default under the terms hereof.

E. ASSIGNMENT FROM PARTY OWING THE JOINT ACCOUNT:

Notwithstanding anything herein contained to the contrary, no assignment or transfer of interest shall relieve any party hereto of debts owed to Operator and/or any Non-Operators, nor shall it act to restrict Operator's rights under Article VII.B. and Article XV.D. If Operator is unable to collect any unpaid debts from any party subject to this Agreement within 60 days from the date said party assigned the property, Operator, without prejudice to any other rights or remedies, shall have the right to any remedies provided for in Article VII.B. to collect the debt from the assignee of the owing party.

F. BANKRUPTCY RELIEF:

If, following the granting of relief under Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U. S. C. Section 365, then the Operator, or (if the Operator is the debtor in the bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. In the event of any assumption, Operator or said other party, shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all parties.

G. REQUIRED WELL OPERATIONS:

Notwithstanding anything to the contrary herein contained, it is understood and agreed that the non-consent provisions of Article VI.B shall not be applicable to any well or operation which is necessary to perpetuate an expiring lease or leases* or to earn an interest in a lease or leases pursuant to any farmout or other agreement. To "earn an interest" as above mentioned is herein understood to include completion operations if production is required to earn, whether or not drilling has extended the lease or continued the right to drill. Any well drilling or other operation that is necessary to perpetuate or earn a lease or interest therein shall be deemed to be a "required well" or "required operation." As to any required well or required operation proposed by any party hereto in which any other party hereto elects not to participate, the non-participating party shall release and relinquish forever proportionately to the participating parties all of non-participating party's interest in and to the lease or leases or interest ("relinquished leases") herein which would be perpetuated by such required well or required operation, only insofar as said relinquished leases cover the drilling unit established for the proposed well, according to the spacing pattern required or permitted by the applicable regulatory authority having jurisdiction, or if no spacing pattern has been provided, then forty (40) acres for an oil well, and one hundred sixty (160) acres for a gas well. The interest in such relinquished leases shall be assigned by the non-participating party to the participating parties without warranty of title except as to claims by, through or under assignor and shall be free of any additional burdens as is provided for in Article III.D.

hereof. All other leases or interests in which the non-participating party owns an interest which are pooled with the relinquished leases to form a proration unit under the regulations of the governmental authority having jurisdiction shall be subject to the Article–Non-Participation on Proposed Wells, immediately following this Article. Nothing herein shall be construed to require the reduction of such non-participating party's interest in any producing wells or units.

*As used in this section, an expiring lease(s) is defined to be any oil and gas lease which would expire within 120 days of the commencement of the proposed operation but will not then expire if such operation is commenced.

H. NON-PARTICIPATION IN PROPOSED WELLS:

Should any party propose the drilling of a well upon the Contract Area, pursuant to Article VI.B., then Operator shall furnish or cause to be furnished to all parties an AFE reflecting the estimated cost of drilling such well. Should a party fail to furnish timely notice of his election to participate, such failure shall constitute a conclusive presumption that he has elected not to participate in such drilling.

Should the participating parties fail to commence operations on the proposed well within the time frame provided in this Operating Agreement, the proposal to drill the well shall be deemed to be withdrawn and the election of any non-participating party shall no longer be of any effect. At that time, any party may make a new proposal under the terms of this provision to drill a well.

Subject to the terms of the Article-Required Well or Operations, immediately preceding this Article, it is hereby agreed that any party who elects, or is deemed to have elected, not to participate in the drilling of a well proposed pursuant to Article VI.B. shall assign and convey to the participating parties all of the non-participating parties leasehold interest in the acreage and depths/formations ascribed to the drilling unit established for the proposed well, according to the spacing pattern required or permitted by the applicable regulatory authority having jurisdiction, or if no spacing pattern has been provided, then forty (40) acres for an oil well, and one hundred sixty (160) acres for a gas well. The provisions of this paragraph shall apply to each well drilled hereunder on an individual basis, wherein, there shall be a separate and independent payment account on each such well.

The other applicable provisions of this Operating Agreement shall control all non-consent operations other than those described in this provision.

I. PLUGGING AND ABANDONING COSTS:

Notwithstanding anything to the contrary contained in Article VI.E.1. and Article VII.D.1., Option No. 2., it is agreed that where a party participated in the drilling of a well but then is a Non-Consenting party to a subsequent operation on such well that directly or indirectly causes additional plugging and abandoning costs to be incurred above what was normal and reasonable, then such additional plugging and abandoning costs shall be borne solely by the Consenting Parties thereto (proportionately to their aggregate interest in the subsequent operation).

J. ADDITIONAL PROVISION OF ARTICLE VII.D.:

The phrase "necessary expenditures" in Article VII.D.1. (Option No. 2) on page 10 shall be deemed not to include sidetracking operations, unless specifically included in an Authority for Expenditure approved by the participating parties.

K. **MARKETING OF GAS:**

Notwithstanding anything to the contrary contained herein, Operator hereby covenants and agrees that should any Non-Operator so request, Operator will market, subject to the provisions of Article VI.C., such Non-Operator's share of any production from operations on the Contract Area under the same terms and conditions that Operator is marketing its share of said production or will provide Non-Operator the right and opportunity to ratify or join in any contract for the sale of Operator's share of production from operations on the Contract Area. Similarly, in the event any Non-Operator hereby should acquire a market for its share of production from the Contract area, said Non-Operator hereby covenants and agrees that should Operator and/or any other Non-Operator so request, said Non-Operator will market, subject to the provisions of Article VI.C., such Operator's and/or other Non-Operator's share of any production from operations on the Contract Area under the same terms and conditions that said Non-Operator is marketing its share of said production, or said Non-Operator will provide Operator and/or other Non-Operator the right and opportunity to ratify or join, under the same terms and conditions, in any contract for the sale of said Non-Operator's share of production from operations on the Contract Area.

L. **OPERATIONS BY CAPATAZ OPERATING, INC.:**

The parties hereto acknowledge that Capataz Operating, Inc., owns no interest in the Contract Area and is only a contract operator. In the event that H. Scott Davis (the President of Capataz) no longer owns an interest in the Contract Area, Capataz Operating, Inc., will be deemed to have resigned as Operator and a successor operator shall be selected pursuant to Article V.B.2 hereof.

M. **REMOVAL OF OPERATOR:**

Operator may, from time to time and at any time be removed without cause and for any reason by the affirmative vote of two (2) or more Non-Operators owning a majority interest based upon ownership shown on Exhibit "A" (using the ownership set forth in the after payout column), remaining after excluding the voting interest of Operator. Upon the removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected by the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more Non-Operators owning a majority interest based upon the ownership shown on Exhibit "A", remaining after excluding the voting interest of Operator. The removal shall become effective at 7:00 AM on the first day of the calendar month following the expiration of thirty (30) days after the date on which a successor Operator is selected.

N. **ADVANCE PAYMENTS:**

Notwithstanding the provisions of Article VII.C. hereof, if Operator desires, or is requested by any Non-Operator to do so, Operator shall advance bill each Non-Operator who elects to participate in any approved operation hereunder, one hundred percent (100%) of Non-Operator's proportionate share of the costs attributable to the entire operations; provided however, in the case of the drilling or deepening of a well, Operator shall advance bill that share of the costs attributable to the drilling or deepening and testing of the well, and not the costs associated with the completion of same. In the same manner, Operator may advance bill each Non-Operator who elects to participate in the completion of such well one hundred percent (100%) of Non-Operator's proportionate share of estimated completion costs. Non-Operators who have elected to participate in any such operations shall remit to Operator within 24 hours prior to the commencement of the proposed operation, one hundred percent (100%) of the amount so invoiced.

O. **OPERATOR'S LIEN - SECURITY INTEREST:**

Subject to the provisions of Article VII.B. of this Operating Agreement, each Non-Operator grants Operator a lien upon all of the rights, title and interests of each Non-Operator, whether now existing or hereinafter acquired, in and to (i) the oil, gas and other minerals in, on and under the Contract Area, and (ii) any oil, gas and mineral leases covering the Contract Area or any portion thereof. In addition, each Non-Operator grants to Operator a security interest in and to all of such Non-Operator's rights, titles, interest, claims, general intangibles, proceeds, and products thereof, whether now existing or hereafter acquired, in and to (i) all oil, gas, and other minerals produced from the Contract Area when produced; (ii) all accounts receivable accruing or arising as a result of the sale of such oil, gas and other minerals; (iii) all cash or other proceeds from the sale of such oil, gas and other minerals once produced; and (iv) all oil and gas wells and other surface and sub-surface equipment and facilities of any kind or character located on the Contract Area and the cash and other proceeds realized from the sale thereof (collectively, the "Personal Property Collateral"). This Operating Agreement (including a carbon, photographic or other reproduction hereof) shall constitute a non-standard form financing statement under the terms of the Uniform Commercial Code of the state in which the Contract Area is located, and as such may be filed for record in the real estate records of the county or counties in which the Contract Area is located. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's share of expense.

P. **SEPARATE MEASUREMENT FACILITIES:**

Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using separate production measurement facilities shall keep accurate records of such production in accordance with applicable state and federal regulations, and upon Operator's request, under the terms of this Agreement or any agreement executed in conjunction with this Agreement, true and complete copies of said records shall be furnished to Operator. Said production records supplied to the Operator shall be treated as confidential information and shall be used by Operator only to the extent necessary to fulfill its duties as Operator.

Q. **DISBURSEMENT OF ROYALTIES:**

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursement of all royalties, overriding royalties and other payments out of, or with respect to production which are payable on the Contract Area, Operator will, if any Non-Operator so desires, make such disbursements on behalf of said Non-Operator at his directions, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payment for oil, gas or other hydrocarbons directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly but will be liable for incorrect disbursements only in the event of gross or willful negligence. Any expenses incurred by Operator in performing this function shall not be deemed to be administration services and therefore not covered by the overhead charges set forth on page 4, Article III.1.i. of the Accounting Procedure attached hereto as Exhibit "C". Any such expenses incurred by Operator in performing this function and charged to the joint account shall in no event exceed $60.00 per month per well.

R. **CONTRACTOR INDEMNIFICATION:**

As to any contract executed by Operator with an independent contractor covering operations or services to be performed on properties covered by the Operating Agreement, Operator shall require that any indemnification provision contained therein shall extend to and inure to the benefit of Non-Operators in the same manner as Operator.

S. **REWORK, DEEPEN OR PLUG BACK A PRODUCING WELL:**

No well which is producing in commercial quantities shall be reworked, deepened or plugged back without the consent of a party or parties owning an aggregate of 80% of the working interest in such well. A party who has elected not to participate in such operation (as permitted in Article VI.B) may nonetheless consent to the conducting of such operations by less than all the parties in accordance with Article VI.B.2

T. ***DIFFERING OWNERSHIP, SEPARATE OPERATING AGREEMENTS:***

If hereafter, ownership in the Contract Area differs between one geographical area and another (as by election of a party not to participate in (i) the drilling of a well as provided in XV.H., or (ii) the operation necessary to perpetuate an expiring lease as provided in XV.G.), effective at the time such change of ownership occurs, each such geographic area shall be deemed to be covered by a separate form Operating Agreement identical to this one, except for a re-allocation of ownership and description of the Contract Area on Exhibit "A" thereof.

U. **TAXES:**

If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's working interest.

V. **ACCESS TO CURRENT DIVISION ORDERS AND PAY SHEETS:**

Upon written request by any party hereto, the Operator shall furnish or cause to be furnished, free of charge, to said requesting party a full and complete current division of interest (Division Orders) and current Pay Sheet which sets forth each party's name, mailing address, [redacted] decimal interest, and type of interest (e.g. royalty, overriding royalty, production payment, working interest), which Operator has in its possession or to which it has access. As well, any party hereto shall, during normal business hours, have access to and the right to make copies of any and all deeds, assignments, probates, changes of address notices, or other such instruments which Operator has relied upon to make adjustments to the division of interest and Pay Sheet.

W. **REGULATORY PROCEEDINGS:**

Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's reasonable interpretation or application of rules, rulings, regulations or orders of any local, state or federal agency, or any other regulatory agency having jurisdiction, along with any predecessors or successors to any agency. Non-Operators further agree to reimburse Operator for their respective proportionate shares of any amounts Operator may be required to refund, rebate or pay as the result of any incorrect interpretation or application of such rules, rulings, regulations or orders, together with Non-Operators' proportionate part of interest and penalties owed by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders. This Operating Agreement shall not be construed to provide that any party is obligated to represent any other party before the Federal Energy Regulatory Commission or any other governmental agency or body having jurisdiction over the Contract Area.

Fees for legal services, costs and expenses incurred in connection with (i) preparation and presentation of evidence and exhibits at Office of Conservation hearings, and (ii) preparation and handling of applications to and hearings before the Federal Energy Regulatory Commission and other governmental agencies or regulatory bodies will be

considered as joint operating expenses, notwithstanding anything to the contrary contained in this Operating Agreement or the accounting procedures attached hereto as Exhibit "C"; provided, however, if Operator determines that the costs of any project may exceed $5,000.00, consent of Non-Operators shall be obtained.

X. MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT:

The parties hereto agree to execute the Memorandum of Operating Agreement and Financing Statement attached hereto as Exhibit "G". This instrument maybe executed in one document signed by all the parties or in separate documents which shall be counterparts hereof, or by an instrument or instruments of ratification of an executed counterpart or counterparts. If executed in separate counterparts, all such counterparts and all ratifications thereof when executed by one or more parties shall constitute but one and the same instrument. The failure of one or more parties to execute this instrument, a counterpart hereof or a ratification hereof, shall not in any manner affect the validity and binding effect of same as to the parties who execute said instrument. For recordation purposes, the operator or its successor operator, is authorized to detach the signature and acknowledgment pages from one or more counterparts and to attach them for filing with any other executed counterpart.

ARTICLE XVI.
MISCELLANEOUS PROVISIONS

The terms, covenants, provisions and conditions of this Operating Agreement shall be covenants running with the lands and leasehold estates included within the Contract Area covered hereby. Any assignment of an interest in the Contract Area covered hereby shall expressly be made subject to all of the terms, covenants, provisions and conditions of this Operating Agreement, and any parties so assigning such interests in the Contract Area shall promptly give notice of such an assignment to Operator. No such assignment shall be binding upon any other party hereto until thirty (30) days after the assigning party shall have furnished to all other parties hereto a copy of the recorded instrument evidencing same.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of September 19 98.

OPERATOR

Capataz Operating, Inc.

By: _____

NON-OPERATORS

Cross Timbers Oil Company

By: _____
Vaughn O. Vennerberg, II
Senior Vice President - Land

Leonard Resource Investment Corporation

By: _____

_____
H. Scott Davis

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated September 1, 1998, by and between Capataz Operating, Inc. as Operator and Leonard Resource Investment Corporation et al, as non-operator.

I. LANDS SUBJECT TO THIS AGREEMENT:

SE/4 Section 28 and All of Section 33-T19S-R38E; All of Section 4 (less and except the W/2 SW/4), N/2 NE/4 and NE/4 NW/4 Section 9-T20S-R38E, Lea County, New Mexico

II. RESTRICTIONS AS TO DEPTH OR FORMATION:

None

III. INTERESTS AND ADDRESSES OF THE PARTIES:

	Initial Well Through Completion [1]	Initial Well After Completion and All Subsequent Wells
Capataz Operating, Inc. 911 Bedford Midland, Texas 79701	None	None
Cross Timbers Oil Company 810 Houston Street, Suite 2000 Fort Worth, Texas 76102-6298	0	25.00% [2]
Leonard Resource Investment Corporation P.O. Box 3422 Midland, Texas 79702	100% [2]	75.00% [2]
H. Scott Davis 911 Bedford Midland, Texas 79701		

[1] As defined in Paragraph 4 of Farmout Agreement dated September 1, 1998.

[2] These interests are subject to Farmout Agreement dated September 1, 1998.

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated September 1, 1998 by and between Capataz Operating, Inc., as Operator and Leonard Resource Investment Corporation et al, as non-operator

OIL AND GAS LEASE

THIS AGREEMENT made this _____ day of _____, 19___, between _____ Lessor (whether one or more) and _____ Lessee, WITNESSETH:

1. Lessor in consideration of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for the producing oil and gas, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, the following described land in _____ County, Texas. to-wit:

and containing _____ acres, more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term of one (1) year from this date (called "primary term") and as long thereafter as oil or gas is produced from said land hereunder.

3. The royalties to be paid Lessor are: (a) on oil, including distillate, condensate and other liquid hydrocarbons, 1/4 on that produced and saved, to be delivered at Lessor's option to be exercised and changed at any time and from time to time as Lessor may desire, either (1) to Lessor at the wells or (2) to the credit of Lessor in the pipeline to which the well is connected or with the transporter receiving Lessee's oil, but for not less than the same price received by Lessee for its oil, and for not less than the market value at the wells for production of like kind and quality, (b) on gas, including casinghead gas or other gaseous substances, 1/4 of that produced and sold or used, to be delivered at Lessor's option to be exercised and changed at any time and from time to time as Lessor may desire, either (1) to Lessor or Lessor's purchaser at the wells, or (2) a sum equal to the market value at the wells of such royalty gas produced from and sold or used off the leased premises, or in the manufacture of gasoline or the extraction or sulphur or any other product. Lessee shall have free use of oil or gas for all operations hereunder and no royalty shall be due thereon.

4. If at the expiration of the primary term or at any time thereafter, there is located on the leased premises a well or wells capable of producing gas in paying quantities and such gas is not produced for lack of a suitable market and this lease is not being maintained in force and effect under the other terms and provisions hereof, Lessee may pay as royalty a sum of one dollar ($1.00) per acre to Lessor prior to the expiration of the primary term of this lease or, if the primary term has expired prior to the shutting in of said well, within sixty (60) days after Lessee shuts in said well or ceases to produce gas therefrom or within sixty (60) days after this lease ceases to be maintained in force under its other provisions; and if such payment is made, this lease shall be considered to be a producing lease and such payment shall extend the term of this lease for a period of one (1) year from the date such payment or tender is made. After the primary term this lease cannot be maintained in force solely by the payment of shut-in gas well royalty for any one period in excess of _____ consecutive year(s).

5. If prior to discovery of oil or gas on said land Lessee should drill a dry hole or holes thereon or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee restores production or commences additional drilling or reworking operations within sixty (60) days thereafter but shall remain in force so long as operations are prosecuted with no cessation of more than thirty (30) consecutive days, and if they result in the production of oil or

gas so long thereafter as oil or gas is produced from said land. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

6. Lessor hereby agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. It is agreed that if Lessor owns an interest in said land less than the entire fee simple estate (even though this lease purports to cover such lesser interest) then the royalties to be paid Lessor shall be reduced proportionately.

7. If any operation permitted or required hereunder, or the performance by Lessee of any covenant, agreement, or requirement hereof is delayed or interrupted directly or indirectly by any past or future acts, orders, regulations or requirements of any governmental body, or any agency, officer, representative or authority thereof, or because of delay or inability to get materials, labor, equipment or supplies, or on account of any other similar or dissimilar cause beyond the control of Lessee, the period of such delay or interruption shall not be counted against the Lessee, and the term of this lease shall automatically be extended so long as the cause or causes for such delays or interruptions continue and for a period of ninety (90) days thereafter; and so long thereafter as oil or gas is produced or drilling or reworking operations conducted. The Lessee shall not be liable to Lessor in damages for failure to perform any operation permitted or required hereunder or to comply with any covenant, agreement or requirement hereof during the time Lessee is relieved from the obligations to comply with such covenants, agreements or requirement.

IN WITNESS WHEREOF, this instrument is executed on the date first written.

COPAS – 1984 – ONSHORE
Recommended by the Council of Petroleum Accountants Societies
COPAS

601, BOX 909 TULSA OK 74101

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated September 1, 1998 by and between Capataz Operating, Inc., as Operator and Leonard Resource Investment Corporation et al, as non-operator.

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.
"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the Parties to this agreement other than the Operator.
"Parties" shall mean Operator and Non-Operators.
"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
"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.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Norwest Bank Texas, Midland on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator 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 Controllable Material as provided for in Section V.

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5. **Audits**

A. 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 Joint Account 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 adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

3. **Labor**

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B 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 3A of this Section II. 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 costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. **Employee Benefits**

Operator's current costs 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 chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. **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 where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

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 where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed ten percent (10 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. 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 other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. 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 of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

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III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. 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 the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 4,500.00
(Prorated for less than a full month)

Producing Well Rate $ 450.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

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

(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

(1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

(2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

(4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April 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 calendar year preceding 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, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of $ 10,000.00 :

A. 5 % of first $100,000 or total cost if less, plus

B. 3 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 1 % of costs in excess of $1,000,000.

Total cost shall mean the 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 and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. 5 % of total costs through $100,000; plus

B. 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 1 % of total costs in excess of $1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

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

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

COPAS

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2⅜ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2⅜ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) 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 published or listed prices 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 providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided 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 ten 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.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. 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.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated September 1, 1998, by and between Capataz Operating, Inc., as "Operator", and Leonard Resource Investment Corporation, et al, as "Non-Operators"

INSURANCE

Pursuant to Article VII G. hereof Operator shall carry or provide the following insurance for the benefit and protection of the joint account:

1. Workmen's Compensation Insurance sufficient to comply with the Workmen's Compensation laws for the state in which the properties covered hereby are located;

2. Employer's Liability Insurance on bodily injury of not less than $500,000.00 for accidental injuries per accident and $500,000.00 per employee for bodily injury by disease, subject to a $500,000.00 policy limit for bodily injury by disease;

3. Commercial General Liability Insurance with limits of not less than $1,000,000.00 combined single limit per occurrence;

4. Commercial Automotive Liability Insurance for non-owned and hired automobiles with limits of not less than $500,000.00 combined single limits for each occurrence;

5. Care, Custody and Control Insurance in the amount of $250,000.00.

6. Operators Extra Expense Insurance (Blowout Insurance) with limits of not less than $2,000,000.00. Includes joint venture endorsement, evacuation expense endorsement, 100% redrill and pollution and contamination coverage.

7. Commercial Umbrella of $1,000,000.00.

All premiums paid on such insurance shall be charged to the joint account. Except by mutual consent of the parties, no other insurance shall be maintained for the joint account, and all losses not covered by such insurance shall be charged to the joint account.

Operator shall not be liable to Non-Operators for loss suffered on the account of insufficiency of insurance carried or of the insurer with whom carried, nor shall Operator be liable to Non-Operators for any loss occurring by reason of Operator's inability to provide or maintain the insurance abovementioned; provided, however, that if at anytime during the life of this agreement Operator experiences such inability, Operator shall promptly notify Non-Operators in writing of such fact. All of said insurance shall be subject to exclusions as are specified in policies currently held by Operator. (Copies of policies to be made available upon request.)

EXHIBIT "E "

Attached to and made a part of that certain Operating Agreement dated September 1, 1998 by and between Capataz Operating, Inc., as "Operator" and Leonard Resource Investment Corporation, et al, as "Non-Operators"

GAS BALANCING AGREEMENT

INTENT

The parties to this gas balancing agreement (GBA) intend to provide a method of balancing as production from the lease(s) or unit when a party does not take its proportionate share of production.

Pursuant to the above Operating Agreement, each party shall have the rights, but not the obligation to take in kind and/or separately dispose of its proportionate share of the gas produced from the above stipulated lease or unit and shall make a good faith effort to dispose its share of gas as currently produced. In the event any party hereto fails, or is unable, to take in kind and/or market its share of the gas as produced for any reason, the terms of this GBA shall automatically become effective, and shall superseded any relevant contrary terms in the Operating Agreement (unless otherwise noted herein).

As long as any gas produced from the lease(s) or unit is subject to the regulations of the Federal Energy Regulatory Commission (FERC), or any successor governmental authority, under any section of the Natural Gas Policy Act of 1978 (NGPA), or other statutory authority which establishes maximum lawful prices for the gas, each party shall receive its allocated share of each pricing category of gas in accordance with its working interest in the lease or unit. It is the intent of this GBA that balancing of gas will be based upon the allocated volumes of each category of gas. This GBA shall apply separately to each pricing category of gas. Any deregulated gas, including gas deregulated in the future, shall be treated as a separate category for purposes of balancing.

The terms "party" and "parties" shall be considered to imply either the singular or plural form of the word as applicable according to the context.

OVER/UNDER PRODUCTION

During any period or periods when any party hereto fails, or is unable, to take in kind and/or market, for any reason, its share of gas as produced, the other party shall be entitled, but not required, to produce each month the maximum amount of gas production permitted by the appropriate governmental authority having jurisdiction and deliver to their purchasers all gas production not taken by the under produced party. Each party failing to take or market its full share of the gas as produced shall be considered under produced by a quantity of gas equal to its share of the gas produced, less such party's share of the gas taken or sold, vented, lost, or used in the lease or unit operations. Those parties which are capable of taking and/or marketing quantities of gas allocable to an underproduced party, in the absence of any other agreement between them, shall each take a share of the gas attributed to the underproduced party in the direct proportion that its interest bears to the total interest of all parties taking underproduced gas and shall be considered to be overproduced. All gas taken and marketed by a party in accordance with the terms of the GBA, regardless of whether such party is underproduced or overproduced, shall be regarded as gas taken for its own account with title thereto being in such party, whether such gas is attributable to such party's working interest share of production, to overproduction, or to makeup of underproduction.

ACCOUNTING FOR IMBALANCE

The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities and categories of gas each party is entitled to receive and the quantities and categories of gas taken and/or marketed by each of the parties. For the sole purpose of implementing the terms of this GBA and adjusting gas imbalances which may occur, each party disposing of gas from the lease(s) or unit in any month, to the extent required, shall furnish or cause to be furnished to the Operator by the last day of each calendar month a statement showing the total volume of gas sold by such party or taken in kind for its own account during the preceding calendar month (the "report period"). Within sixty (60) days after the end of each report period, the Operator shall furnish each party a statement showing the status of the overproduced and underproduced accounts of all parties. All gas volumes under this paragraph will be identified by the appropriate category under the NGPA or any other law or regulation in effect including deregulated gas, as appropriate. Each party to this GBA agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this agreement.

GAS MAKEUP

Any party underproduced as to a given category of gas shall endeavor to bring its taking of gas of that category into balance. A reasonable length of time after written notice to the Operator, any party may begin taking and/or delivering to its purchaser(s) its full share of each category of gas produced. In addition, to allow for the recovery and makeup of underproduced gas in a category and to balance the gas account for the category between the parties in accordance with their respective interests, the underproduced party shall be entitled to take an additional share of gas ("make-up gas"). A reasonable length of time after written notice to the Operator, the underproduced party shall be entitled to take up to an additional fifty percent (50%) of the monthly quantity of that category of gas attributable to the overproduced party; however in no event shall the make-up gas entitlement of a party exceed one hundred percent (100%) of that party's regular working interest entitlement of production. If more than one underproduced party is entitled to take additional gas, they shall divide the make-up gas in proportion to their respective underproduced accounts. The first gas made up shall be assumed to be the first gas produced.

It is specifically agreed that no underproduced party will be allowed to take make-up gas during the months of November, December, January, or February ("the Winter Period"). However, gas make-up will be allowed during the Winter Period only if the underproduced party has taken at least ninety percent (90%) of the make-up gas to which it was entitled during the six (6) consecutive months immediately prior to the Winter Period.

CESSATION OF PRODUCTION

If, at the termination of production of a give category of gas, an imbalance exists between the parties, a monetary settlement of the imbalance between the parties shall be made. Operator shall distribute, within ninety (90) days of the date the well last produced such given category of gas, a statement of net unrecouped underproduction and overproduction and the months and years in which such unrecouped production accrued ("final accounting"). Within thirty (30) days of receipt of such final accounting, each Overproduced Party shall remit to Operator for disbursement to the Underproduced Parties, a sum of money (which sum shall not include interest) limited to the lesser of 1) the proceeds actually received by the Overproduced Party at the time of overproduction, or 2) the Underproduced Party's respective price at the time of underproduction, established under the terms of a valid Gas Sales Agreement for such production, multiplied by the underproduced volumes. Any monetary settlement between the parties shall be made net of any royalties, production taxes, and severance taxes previously paid on the overproduction by the overproduced and severance taxes previously paid on the overproduction by the Overproduced Party, and also net of any outstanding amounts related to the lease(s) or unit(s) which are owned by the Underproduced Party to the Overproduced Party. If the Overproduced Party did not sell its gas, but otherwise utilized such gas in its own

operations, such gas will be valued in the same manner used for royalty and severance tax purposes when produced. That portion of the monies collected by the Overproduced Party which is subject to refund by orders of the FERC may be withheld by the Overproduced Party until such prices are fully approved by the FERC, unless the Underproduced Party furnishes a corporation undertaking agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by the FERC.

Within thirty (30) days of receipt of any such remittance by Operator from an Overproduced Party, Operator shall disburse such funds to the Underproduced Party(ies) in accordance with the final accounting. Operator assumes no liability with respect to any such payment (unless such payment is attributable to Operator's overproduction), it being the intent of the parties that each Overproduced Party shall be solely responsible for reimbursing each Underproduced Party for such Underproduced Party's respective share of overproduction taken by such Overproduced Party in accordance with the provisions contained herein. If any party fails to pay any sum due under the terms hereof after demand therefor by the Operator, the Operator may turn responsibility for the collection of such sum to the party or parties to whom it is owed, and Operator shall have no further responsibility for collection.

Notwithstanding the above, in the event that the parties cannot mutually agree to balance in kind under the first paragraph of this section, by mutual consent the parties may elect to balance gas of like quality and vintage from a source other than lease(s) subject to the Operating Agreement to which this GBA is attached. The gas so returned shall be from a designated area mutually agreed to by the parties to this GBA.

AUDITS

Any Underproduced Party shall have the right for a period of two (2) years after receipt of payment pursuant to final accounting and after giving written notice to all parties, to audit Overproduced Party's accounts and records relating to such payment. Any Overproduced Party shall have the right for a period of two (2) years after tender of payment for unrecouped volumes and upon giving written notice to all parties, to audit an Underproduced Party's records as to volumes. The party conducting such audit shall bear its cost of the audit.

ROYALTY SETTLEMENT

At all times while gas is produced from the Contract Area, each party producing or taking gas as provided herein shall pay or cause to be paid any and all royalties due on such gas in accordance with the Operating Agreement and any overriding royalties borne by all parties; provided, however, if Operator is not a taking party, it shall have the right to request and receive evidence of payment of all royalties. The party not taking its share of gas shall have no obligation for payments of royalties on its share of gas not taken by such party, but shall be fully responsible for any other burdens affecting its share of gas and shall indemnify and hold each other party harmless from all claims relating thereto. As used in this paragraph, the phrase "royalties due on such gas in accordance with the Operating Agreement" shall not be limited as provided in Article III.B., but shall include all royalties as provided in each such oil and gas lease as contributed by any party not taking its share of gas.

DELIVERABILITY TESTS

Nothing herein shall be construed to deny any party the right, from time to time, upon reasonable advance notice in writing to the operator, to produce and take or deliver to its purchaser the full well stream for a reasonable period to meet the deliverability test required by its purchaser.

TAXES

Except where provision is made to the contrary in the Operating Agreement, each party shall pay, or cause to be paid, all production and severance taxes due and payable on its full share

of gas production, as if each party were taking or delivering to a purchaser its full share of production.

LIQUID HYDROCARBONS

All parties hereto shall share in and own the liquid hydrocarbons recovered from all gas by primary separation equipment prior to processing in a gas plant in accordance with their respective interests, as specified in the above Operating Agreement, whether or not such parties are actually producing and marketing at such time.

LEASE OPERATING COST

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations, as its share thereof is set forth in the above described Operating Agreement.

CONFLICT

If there is a conflict between the terms of this Agreement and the terms of any gas sales contract covering the Contract Area entered into by any party, the terms of this Agreement shall govern.

TERM

This agreement shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until the gas balance accounts between the parties are settled in full and shall accrue to the benefit and be binding upon the parties hereto, their successors, representatives, and assigns.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated September 1, 1998, by and between Capataz Operating, Inc. as Operator and Leonard Resource Investment Corporation et al, as non-operator.

NONDISCRIMINATION: In Performance of this contract, Operator shall not engage in any conduct or practice which violates any applicable law, order or regulation prohibiting discrimination against any person by reason of his race, religion, color, sex, national origin or age. The Operator further agrees to comply fully with the non-discrimination provision of Section 202, Executive Order No. 11246 (30 FR 12139) as amended, which are hereby included in this contract by reference.

EXHIBIT "G"

Attached to and made a part of that certain Operating Agreement dated September 1, 1998, by and between Capataz Operating, Inc., as "Operator", and Leonard Resource Investment Corporation, et al, as "Non-Operators"

MEMORANDUM OF OPERATING AGREEMENT AND LIENS CREATED THEREBY AND FINANCING STATEMENT

STATE OF NEW MEXICO }
}
COUNTY OF LEA }

This agreement is executed to evidence that the undersigned parties have on the effective date hereof entered into a Joint Operating Agreement wherein Capataz Operating, Inc., as "Operator", and the undersigned parties, as "Non-Operators", have made certain agreements for oil and gas exploration and development and operations on leases covering certain lands in Sections 28 and 33, T-19-S, R-38-E, N.M.P.M. and in Sections 4 and 9, T-20-S, R-38-E, N.M.P.M., all in Lea County, New Mexico, which leases and lands are more fully described in Exhibit "A" attached to and referred to in said Joint Operating Agreement as the Contract Area.

The Operating Agreement provided for the creation of liens on the interests of the parties thereto and each party hereto does hereby grant to the other party a lien on its interest in the lands and leases described in said Exhibit "A" and AGREEMENT in accordance with terms of the following provisions:

ARTICLE VII

EXPENDITURES AND LIABILITY OF PARTIES

1. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C" to the OPERATING AGREEMENT. To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default.

2. If any party fails or is unable to pay its share of expense within sixty (60) days after rendition by Operator of a statement therefor, Operator shall notify the non-defaulting parties thereof and the non-defaulting parties shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.
3. The lien and security interest granted Operator shall secure every monetary obligation or liability created under the terms of the operating agreement, including but not limited to:

(a) Every party's obligation to pay its share of expense;

(b) Every party's obligation to pay interest, fees and costs;

(c) The obligations of Operator to make payments to third parties on behalf of Non-Operator;

(d) The obligations of Operator to deliver to Non-Operator and third parties oil and gas and proceeds from the sale of oil and gas;

(e) After removal or resignation of Operator, the obligations of the former Operator to make payments to Non-Operator and third parties during the period of its operatorship;

(f) The recovery of sums due Consenting Parties as a result of operations by less than all parties;

(g) All other obligations of the Operator to pay, repay or account for monies held by it which are the property of, or due to, Non-Operator or third parties and which are held by Operator for the benefit of Non-Operator or third parties; and

(h) All other debts, liabilities, obligations, damages, interest, fees and costs existing or arising between or among the parties to the operating agreement to the extent that those items relate to the operating agreement, to the Contract Area, to lands pooled or unitized with Contract Area, or to oil or gas produced therefrom.

4. Nothing in this Exhibit shall relieve a defaulting party of its obligation to pay to the non-defaulting parties the unpaid expenses attributable to its interest under this agreement in the event the non-defaulting parties are unable to recoup the unpaid expenses from production.

This instrument may be executed in any number of counterparts, no one of which needs to be executed by all parties, and shall be binding upon all parties who have executed such a counterpart with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, this memorandum shall be effective the 1st day of September, 1998.

OPERATOR

CAPATAZ OPERATING INC.

_____

H. Scott Davis, President

NON-OPERATORS

CROSS TIMBERS OIL COMPANY

BY: _____

VAUGHN O. VENNERBERG, II
SENIOR VICE PRESIDENT-LAND

LEONARD RESOURCE INVESTMENT CORPORATION

BY: _____

DAN M. LEONARD, PRESIDENT

_____
H. SCOTT DAVIS

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1998 by _____.

_____
Notary Public

My Commission Expires:

_____

CORPORATE ACKNOWLEDGEMENT

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1998 by _____ as _____ of _____ a _____ corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

CORPORATE ACKNOWLEDGMENT

STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1998 by _____ as _____ of _____ a _____ corporation, on behalf of said corporation.

_____
Notary Public

My Commission Expires:

_____

exhibt g/SW Nadine/jca

EXHIBIT "C"

Attached to and made a part of Farmout Agreement dated September 1, 1998 by and between Leonard Resource Investment Corporation, Farmee and Cross Timbers Oil Company, Farmor.

CROSS TIMBERS OIL COMPANY
WELL REQUIREMENTS LIST

ADDRESS: 810 Houston Street, Suite 2000
Fort Worth, Texas 76102

MAIN PHONE: 817-870-2800

TELECOPIER: 817-882-7299 DEX Automatic

WELL: _____

LOCATION: _____

COUNTY/STATE: _____

OPERATOR: _____

CROSS TIMBERS PRIMARY CONTACT: Jeff Heyer

TITLE: Vice President - Geology

PHONE: (817) 877-2352

CROSS TIMBERS ALTERNATE CONTACT: Win Ryan

TITLE: Land Manager

PHONE: (817) 877-2336

NOTICE REQUIREMENTS

1.	At the time the well is to be spudded, your geologist or engineer in charge of the well will phone Cross Timbers' primary or alternate contact.	X Required ___ Not Required
2.	Notice by telephone of all proposed coring, drillstem testing, and logging in sufficient time for Cross Timbers to have a representative present.	X Required ___ Not Required
3.	Notice by phone of your intention to run production casing or plug and abandon, in time for Cross Timbers to participate in the decision.	X Required ___ Not Required

DATA REQUIREMENTS

1.	Report by telecopier (if telecopier not available, then by telephone) of daily drilling reports from spud date until well is completed and potentialed, to the attention of Scott Clair.	1 Number Needed X Daily Reports ___ Weekly Reports ___ End of Well
2.	Mud log if mud logging unit is used.	1 Number Needed X Daily Reports ___ Weekly Reports ___ End of Well
3.	Samples of any and all cores.	X Required ___ Not Required
4.	Complete reports of all drillstem tests taken, including charts from bottom hole pressure recorder.	1 Number Needed X Daily Reports ___ Weekly Reports ___ End of Well
5.	Electric log field prints.	2 Number Needed
6.	Electric log final prints.	2 Number Needed
7.	Any PVT analyses, water, analyses, pressure buildup tests, or special core analyses.	1 Number Needed
8.	Potential test.	1 Number Needed
9.	Completion (including stimulation and frac reports) and/or plugging report each well.	1 Number Needed
10.	All other forms filed with the State or Federal Regulatory Bodies.	1 Number Needed

Items 2. through 10 should be sent to the attention of Cross Timbers' primary contact.

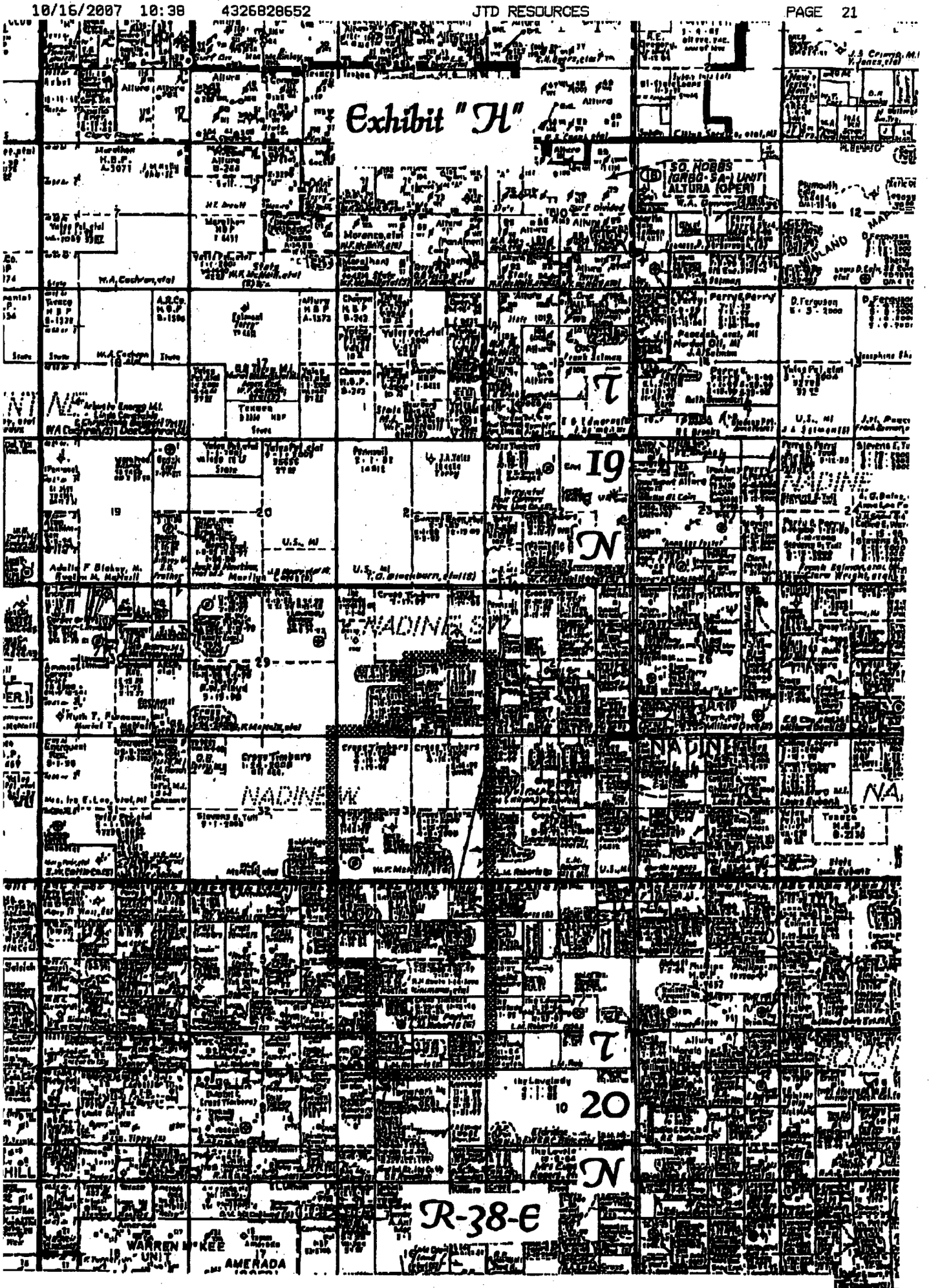
Exhibit "H"
T 19 N
T 20 N
R-38-E
NADINE
NADINE W
NADINE
WARREN UNIT
KEE
AMERADA
SO. HOBBS (GRBG-SA) UNIT
ALTURA (OPER)
Area of Mutual Interest and Farmout Lands
GRAPHIC SCALE
0' 1Mile 2 Miles
0' 2000' 4000' 6000' 8000' 10,000'
Scale: 1"=4,000'
Cross Timbers Oil Company
Lea County, New Mexic

EXHIBIT "I"

Attached to and made a part of Farmout Agreement dated September 1, 1998 by and between Cross Timbers Oil Company and Leonard Resources Investment Corporation.

ASSIGNEE - WELL NAME
CTOC - ASSIGNEE
_____COUNTY, NM

PARTIAL ASSIGNMENT OF OIL AND GAS LEASES

KNOW ALL MEN BY THESE PRESENTS:

That, the undersigned, CROSS TIMBERS OIL COMPANY, with offices at 810 Houston Street, Suite 2000, Fort Worth, Texas 76102, hereinafter referred to as "Assignor", in consideration of Ten Dollars ($10.00) and other good and valuable consideration, receipt and full sufficiency of which is acknowledged, does hereby assign, transfer and set over and convey unto:

_____
_____
_____

hereinafter called "Assignee", its successors and assigns, without warranty of title either express or implied, 75% of Assignor's right, title and interest in and to the oil and gas rights only, as covered by the oil and gas leases described on Exhibit "A", attached heretofore by reference made a part hereof in the following described land:

This Assignment is made subject to the terms, provisions, conditions and restrictions contained in the above described oil and gas leases and all prior assignments, transfers or conveyances and to all of the terms, provisions, conditions and restrictions contained in the certain unrecorded Farmout Agreement dated September 1, 1998 by and between Assignor and Assignee.

IN WITNESS WHEREOF, the Assignor has caused this Assignment to be executed this _____ day of _____, ____, but effective as of _____ (first production).

ASSIGNOR:

CROSS TIMBERS OIL COMPANY

By: _____
Vaughn O. Vennerberg, II
Senior Vice President - Land

ASSIGNEE:

_____

By: _____
Name: _____
Title: _____

ACKNOWLEDGEMENT

THE STATE OF TEXAS §
§
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me this _____ day of _____, 1998, by Vaughn O. Vennerberg, II, known to me to be the Senior Vice President - Land of Cross Timbers Oil Company, a Delaware corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for the
State of Texas

STATE OF _____ §
§
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998, by _____, known to me to be the _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for the

EXHIBIT "J"

Attached to and made a part of Farmout Agreement dated September 1, 1998 by and between Leonard Reosurce Investment Corporation, Farmee and Cross Timbers Oil Company, Farmor.

PARTIAL ASSIGNMENT OF OIL AND GAS LEASE

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, _____, with offices at _____ _____, hereinafter referred to as "Assignor", for and in consideration of One Dollar ($1.00) and other valuable consideration, receipt of which is hereby acknowledged, does hereby sell, grant, assign and convey unto _____, with offices at _____, _____ percent of its right, title and interest in and to the oil and gas leases described on Exhibit "A" attached hereto and made a part hereof, together with the rights incident thereto and the personal property thereon, appurtenant thereto, or used or obtained in connection therewith.

This Partial Assignment of Oil and Gas Lease is made subject to the terms and provisions of that certain unrecorded Farmout Agreement dated September 1, 1998 between Cross Timbers Oil Company and Leonard Resource Investment Corporation.

TO HAVE AND TO HOLD said undivided interests unto said Assignee, its heirs, successors and assigns forever. This assignment is made without warranty of title either express or implied.

EXECUTED this ____ day of _____, 1998.

ASSIGNOR:

_____

By: _____
Name: _____
Title: _____

ASSIGNEE:

_____

By: _____
Name: _____
Title: _____

ACKNOWLEDGEMENT

STATE OF _____ §
§
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998, by _____, known to me to be the _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____
Notary Public in and for the

_____

STATE OF _____ §
§
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this ____ day of _____, 1998, by _____, known to me to be the _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

_____
Notary Public in and for the

_____