

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

1. Operator Name and Address XTO ENERGY, INC 2700 FARMINGTON AVENUE FARMINGTON, NM 87401		2. OGRID Number 5380
		3. API Number 30-045-34063
4. Property Code 36139	5. Property Name MARTINEZ GAS COM D	6. Well No. 001R

7. Surface Location

UL - Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
B	24	29N	10W	B	1140	N	1580	E	SAN JUAN

8. Pool Information

AZTEC PICTURED CLIFFS (GAS)	71280
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Additional Well Information

9. Work Type New Well	10. Well Type GAS	11. Cable/Rotary	12. Lease Type Private	13. Ground Level Elevation 5558
14. Multiple N	15. Proposed Depth 2139	16. Formation Pictured Cliffs Formation	17. Contractor	18. Spud Date 12/8/2006
Depth to Ground water 1000		Distance from nearest fresh water well > 1000		Distance to nearest surface water > 1000
Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 _____ mils thick Clay <input type="checkbox"/> Pit Volume: 3000 _____ bbls Drilling Method: Closed Loop System <input type="checkbox"/> Fresh Water <input checked="" type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>				

19. Proposed Casing and Cement Program

Type	Hole Size	Casing Type	Casing Weight/ft	Setting Depth	Sacks of Cement	Estimated TOC
Surf	12.25	8.625	24	225	134	
Prod	7.875	5.5	15.5	2139	281	

Casing/Cement Program: Additional Comments

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Proposed Blowout Prevention Program

Type	Working Pressure	Test Pressure	Manufacturer
DoubleRam	2000	4000	

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

I further certify that the drilling pit will be constructed according to NMOCD guidelines ☒ a general permit ☐, or an (attached) alternative OCD-approved plan ☐.

Printed Name: Electronically filed by Cheryl Moore

Title: Regulatory Analyst

Email Address: Cheryl_moore@xtoenergy.com

Date: 11/15/2006

Phone: 505-564-6706

OIL CONSERVATION DIVISION

Approved By: Charlie Perrin

Title: District Supervisor

Approved Date: 11/21/2006

Expiration Date: 11/21/2007

Submit 3 Copies To Appropriate District
Office
District I
1625 N. French Dr., Hobbs, NM 87240
District II
1301 W. Grand Ave., Artesia, NM 88210
District III
Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM
87505

State of New Mexico
Energy, Minerals and Natural Resources

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-103
June 19, 2008

WELL API NO. 30-045-34063
5. Indicate Type of Lease STATE <input type="checkbox"/> FEE <input type="checkbox"/>
6. State Oil & Gas Lease No.
7. Lease Name or Unit Agreement Name: Martinez Gas Com D
8. Well Number #1R
9. OGRID Number 5380
10. Pool name or Wildcat Aztec PC/Otero CH
11. Elevation (Show whether DR, RKB, RT, GR, etc.) 5558' Ground Elevation

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A
DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH
PROPOSALS)

1. Type of Well: Oil Well <input type="checkbox"/> Gas Well <input checked="" type="checkbox"/> Other	7. Lease Name or Unit Agreement Name: Martinez Gas Com D
2. Name of Operator XTO Energy Inc.	8. Well Number #1R
3. Address of Operator 382 CR 3100, Aztec NM 87410	9. OGRID Number 5380
4. Well Location Unit Letter B : 1140 feet from the NORTH line and 1580 feet from the EAST line Section 24 Township 29N Range 10W NMPM County SAN JUAN	10. Pool name or Wildcat Aztec PC/Otero CH
11. Elevation (Show whether DR, RKB, RT, GR, etc.) 5558' Ground Elevation	

12. Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐
TEMPORARILY ABANDON ☐ CHANGE PLANS ☒
PULL OR ALTER CASING ☐ MULTIPLE COMPL ☐
DOWNHOLE COMMINGLE ☐

OTHER: Add Chacra ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐
COMMENCE DRILLING OPNS. ☐ P AND A ☐
CASING/CEMENT JOB ☐

OTHER: ☐

13. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or recompletion.

XTO would like to add the Otero Chacra ~~formation~~ Pool to this well. Please see attached C102 and revised drilling plan.

RCVD SEP 22 '08
OIL CONS. DIV.
DIST. 3

Spud Date:

Rig Release Date:

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Kyla Vaughan TITLE Regulatory Compl. DATE 09/18/08

For print name Kyla Vaughan E-mail address: Regulatory Compliance PHONE 333-3159

For State Use Only

APPROVED BY [Signature] TITLE Deputy Oil & Gas Inspector, DATE SEP 26 2008

Conditions of Approval (if any):

District IV

1220 S. St Francis Dr., Santa Fe, NM 87505
Phone:(505) 476-3470 Fax:(505) 476-3462

WELL LOCATION AND ACREAGE DEDICATION PLAT

1. API Number 30-045-34063	2. Pool Code 71280 ✓	3. Pool Name AZTEC PICTURED CLIFFS (GAS)
4. Property Code 36139	5. Property Name MARTINEZ GAS COM D	6. Well No. 001R
7. DGRID No. 5380	8. Operator Name XTO ENERGY, INC	9. Elevation 5558

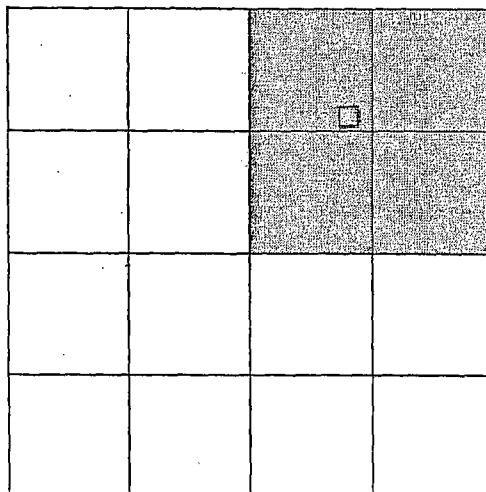
10. Surface Location

UL - Lot B	Section 24	Township 29N	Range 10W	Lot Idn	Feet From 1140	N/S Line N	Feet From 1580	E/W Line E	County SAN JUAN
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11. Bottom Hole Location If Different From Surface

UL - Lot	Section	Township	Range	Lot Idn	Feet From	N/S Line	Feet From	E/W Line	County
12. Dedicated Acres 160.00	13. Joint or Infill	14. Consolidation Code	15. Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

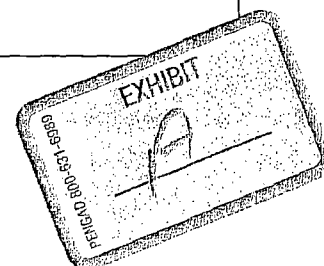
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location(s) or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

E-Signed By: Cheryl Moore
Title: Regulatory Analyst
Date: 11/15/2006

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

Surveyed By: John Vukovich
Date of Survey: 3/24/2006
Certificate Number: 14831



DISTRICT I
1625 N. Fench Dr., Hobbs, N.M. 88240

DISTRICT II
101 W. Grand Avenue, Artesia, N.M. 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, N.M. 87410

DISTRICT IV
1220 South St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87504-2088

Form C-102

Revised October 12, 2005

Instructions on back

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

REVISED SEP 22 '08
AMENDED REPORT

OIL CONS. DIV.

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-045-34063	² Pool Code 82329 ✓	² Pool Name OTERO CHACRA	DIST. 3
⁴ Property Code 36139	³ Property Name MARTINEZ GAS COM "D"		⁵ Well Number 1R
⁷ GRID No. 5380	⁶ Operator Name XTO ENERGY INC.		⁸ Elevation 5558'


¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	24	29-N	10-W		1140	NORTH	1580	EAST	SAN JUAN

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
¹² Dedicated Acres NE/4 160		¹³ Joint or Infill		¹⁴ Consolidation Code		¹⁵ Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16	<p>QTR. CORNER FD 3 1/4" BC B.L.M. 1967</p> <p>S 89-27-03 W 2716.3' (M)</p> <p>1140'</p> <p>1580'</p> <p>LAT: 36°42'54.6" N. (NAD 27) LONG: 107°49'54.4" W. (NAD 27)</p> <p>24</p>	17	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</p> <p><i>Kyle Vaughan</i> 9/18/08 Signature Date <i>Kyle Vaughan</i> Printed Name</p>
	<p>QTR. CORNER FD. STONES & STEEL POST</p>	18	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>MARCH Date of Survey Signature and Seal of Professional Surveyor  Certificate Number</p>

XTO ENERGY INC.

Martinez Gas Com D #1R

APD Data

September 19, 2008

Location: 1140' FNL x 1580' FEL Sec 24, T29N, R10W County: San Juan

State: New Mexico

GREATEST PROJECTED TD: 3150'
APPROX GR ELEV: 5558'

OBJECTIVE: Pictured Cliffs & Otero Chacra
Est KB ELEV: 5564' (12' AGL)

1. MUD PROGRAM:

INTERVAL	0' to 900'	900' to 2500'	2500' to 3150'
HOLE SIZE	12.25"	8.75"	8.75"
MUD TYPE	FW/Spud Mud	FW/Polymer	LSND / Gel Chemical
WEIGHT	8.6-9.0	8.4-8.8	8.6- 9.20
VISCOSITY	28-32	28-32	45-60
WATER LOSS	NC	NC	8-10

Remarks: Use fibrous materials as needed to control seepage and lost circulation. Pump high viscosity sweeps as needed for hole cleaning. Raise viscosity at TD for logging. Reduce viscosity after logging for cementing purposes.

2. CASING PROGRAM:

Surface Casing: 8.625" casing to be set at $\pm 900'$ in a 12-1/4" hole filled with 9.20 ppg mud

Interval	Length	Wt	Gr	Cplg	Coll Rating (psi)	Burst Rating (psi)	Jt Str (M-lbs)	ID (in)	Drift (in)	SF Coll	SF Burst	SF Ten
0'-900'	900'	24.0#	J-55	ST&C	1370	2950	244	8.097	7.972	3.180	6.85	11.30

Production Casing: 5.5" casing to be set at TD ($\pm 3150'$) in 8.75" hole filled with 9.20 ppg mud.

Interval	Length	Wt	Gr	Cplg	Coll Rating (psi)	Burst Rating (psi)	Jt Str (M-lbs)	ID (in)	Drift (in)	SF Coll	SF Burst	SF Ten
0'-3150	3150'	15.5#	J-55	ST&C	4040	4810	202	4.950	4.825	2.68	3.19	4.14

Remarks: All Casing strings will be centralized in accordance with Onshore Order #2 and NTL FRA-90-1.

3. WELLHEAD:

- Casing Head: Larkin Fig 92 (or equivalent), 9" nominal, 2,000 psig WP (4,000 psig test) with 8-5/8" 8rnd thread on bottom and 11-3/4" 8rnd thread on top.
- Tubing Head: Larkin Fig 612 (or equivalent), 6.456" nominal, 2,000 psig WP (4,000 psig test), 5-1/2" 8rnd female thread on bottom (or slip-on, weld-on), 8-5/8" 8rnd thread on top.

4. CEMENT PROGRAM (Slurry design may change slightly, but the plan is to circulate cement to surface on both casing strings):

A. Surface: 8.625", 24.0#, J-55, ST&C casing to be set at $\pm 900'$ in 12-1/4" hole.

534 sx of Type III cement (or equivalent) typically containing accelerator and LCM, mixed at 14.5 ppg, 1.39 ft³/sk, & 6.70 gal wtr/sk.

Total slurry volume is 743 ft³, 100% excess of calculated annular volume to 900'.

B. Production: 5.5", 15.5#, J-55 (or K-55), ST&C casing to be set at $\pm 3150'$ in 8.75" hole.

LEAD:

± 478 sx of Premium Lite HS (Type III/Poz/Gel) or equivalent, with dispersant, fluid loss, accelerator, & LCM mixed at 12.5 ppg, 2.01 ft³/sk, 10.55 gal wtr/sx.

TAIL:

100 sx Type III or equivalent cement with bonding additive, LCM, dispersant, & fluid loss mixed at 14.2 ppg, 1.54 cuft/sx, 8.00 gal/sx.

Total estimated slurry volume for the 5-1/2" production casing is 1114 ft³.

Note: The slurry design may change slightly based upon actual conditions. Final cement volumes will be determined from the caliper logs plus 40%. It will be attempted to circulate cement to the surface.

5. LOGGING PROGRAM:

A. Mud Logger: None.

B. Open Hole Logs as follows: Run Array Induction/SFL/GR/SP fr/TD (3150') to the bottom of the surface csg. Run Neutron/Lithodensity/Pe/GR/Cal from TD (3150') to the bottom of the surface csg.

6. FORMATION TOPS:

Est. KB Elevation: 5564'

FORMATION	Sub-Sea	MD
Ojo Alamo SS	4767	803
Kirtland Shale	4632	938
Farmington SS		
Fruitland Formation	4126	1444
Lower Fruitland Coal		1945
Pictured Cliffs SS	3600	1970
Lewis Shale	3435	2135
Chacra SS	3643	2927
TD	2420	3150

* Primary Objective

** Secondary
Objective

**** Maximum anticipated BHP should be <2,000 psig (<0.30 psi/ft) ****

7. COMPANY PERSONNEL:

Name	Title	Office Phone	Home Phone
Justin Niederhofer	Drilling Engineer	505-333-3199	505-320-0158
Jerry Lacy	Drilling Superintendent	505-333-3177	505-320-6543
John Klutsch	Project Geologist	817-885-2800	--

JDN
9/19/08

Martinez Gas Com D #1R

cost comparison

Intangibles

		AFE'D Total	Invoiced Amount	
248.01	Drilling rig & Move	\$220,000.00	\$179,240.70	-\$40,759.30
248.05	Roads & Loc & Land	\$75,000.00	\$239,164.10	\$164,164.10
248.06	Mud & Chemicals	\$30,000.00	\$28,915.54	-\$1,084.46
248.10	Bits, Mills & Reamers	\$25,000.00	\$10,366.14	-\$14,633.86
248.50	Hammer bit	\$0.00	\$0.00	\$0.00
248.55	Air Hammer rental	\$0.00	\$0.00	\$0.00
248.13	Rig water and rig fuel	\$30,000.00	\$20,748.20	-\$9,251.80
248.11	Drig rentals sub-surf	\$20,000.00	\$7,747.30	-\$12,252.70
248.12	Drig rentals surf	\$4,000.00	\$49,536.65	\$45,536.65
248.56	Drig air comp rental & fuel	\$0.00	\$0.00	\$0.00
248.03	Surf / Int casing crew	\$2,500.00	\$3,573.80	\$1,073.80
248.09	Surf / Int cementing of csg	\$8,000.00	\$30,242.49	\$22,242.49
248.07	Cores, DST & Analysis	\$0.00	\$0.00	\$0.00
248.08	Open Hole logs	\$27,000.00	\$10,253.70	-\$16,746.30
248.16	Drig Supervision, contract/comp	\$11,000.00	\$9,828.00	-\$1,172.00
248.17	Mud logging	\$10,000.00	\$0.00	-\$10,000.00
248.18	Misc supplies	\$1,500.00	\$2,349.43	\$849.43
248.20	Legal fees	\$0.00	\$3,942.41	\$3,942.41
248.21	Drig overhead	\$2,000.00	\$0.00	-\$2,000.00
248.58	Misc labor & welding	\$1,000.00	\$5,166.48	\$4,166.48
248.32	Hauling of fluids to dispose	\$4,000.00	\$8,734.64	\$4,734.64
248.04	Directional Drill tools & services	\$0.00	\$0.00	\$0.00
248.26	Fishing during drlg	\$0.00	\$0.00	\$0.00
248.24	Well control insurance	\$3,000.00	\$0.00	-\$3,000.00
248.25	Misc trucking & hot shot	\$1,000.00	\$19,180.97	\$18,180.97
248.60	Drig contingencies	\$0.00	\$0.00	\$0.00
248.22	Outside operated	\$0.00	\$0.00	\$0.00
	Total Intangible Drilling Costs	\$475,000.00	\$702,040.55	\$227,040.55
248.02	Completion Unit	\$20,000.00	\$0.00	-\$20,000.00
248.31	Clean up loc for completion	\$1,000.00	\$0.00	-\$1,000.00
248.37	Cement Prod Csg	\$27,500.00	\$18,230.60	-\$9,269.40
248.40	Casing Crew for Prod csg	\$4,500.00	\$0.00	-\$4,500.00
248.14	Cased Hole log/perf	\$10,000.00	\$0.00	-\$10,000.00
248.36	Frac tnk rental/Frac wtr trucking	\$6,500.00	\$4,124.32	-\$2,375.68
248.59	Comp chems / cost of frac wtr	\$2,000.00	\$0.00	-\$2,000.00
248.15	Frac/acidizing/Nitrogen/CO2	\$160,000.00	\$0.00	-\$160,000.00
248.42	Cmpl rentals sub-surface	\$2,000.00	\$0.00	-\$2,000.00
248.43	Cmpl rentals surface	\$2,000.00	\$0.00	-\$2,000.00
248.33	Production testing	\$0.00	\$0.00	\$0.00
248.34	Cmpl srvcs/clean out/AFU	\$4,000.00	\$0.00	-\$4,000.00
248.35	Flowback hand & services	\$1,000.00	\$0.00	-\$1,000.00
248.44	Completion consultant/engineer	\$5,500.00	\$0.00	-\$5,500.00
248.45	Cmpl overhead \$500/day	\$5,000.00	\$0.00	-\$5,000.00
248.46	Cmpl trucking & Hot shots	\$2,000.00	\$0.00	-\$2,000.00
248.47	Cmpl fishing/remedial services	\$0.00	\$0.00	\$0.00
248.48	Cmpl contingencies	\$0.00	\$0.00	\$0.00
248.49	Misc labor during cmpl	\$0.00	\$0.00	\$0.00
248.27	Boats charges	\$0.00	\$0.00	\$0.00
248.28	Helicopter charges	\$0.00	\$0.00	\$0.00
248.29	Catering charges	\$0.00	\$0.00	\$0.00
	Total Intangible Cmpl Costs:	\$253,000.00	\$22,354.92	-\$230,645.08
	Total Intangible Costs:	\$728,000.00	\$724,395.47	-\$3,604.53

Tangibles

249.01	Conductor pipe	\$0.00	\$7,568.60	\$7,568.60
249.20	Surface casing	\$5,000.00	\$29,575.08	\$24,575.08
249.21	Intermediate Casing(s)	\$0.00	\$0.00	\$0.00
249.03	Wellhead/Breadenhead Equip	\$5,000.00	\$4,001.25	-\$998.75
249.60	Drlg contingency	\$0.00	\$0.00	\$0.00
Total Tangible Drlg Costs:		\$10,000.00	\$41,144.93	\$31,144.93
249.22	Production casing/Liner	\$65,000.00	\$60,493.63	-\$4,506.37
249.02	Tubing	\$30,000.00	\$0.00	-\$30,000.00
249.46	Tubinghead/Tree	\$3,000.00	\$5,808.13	\$2,808.13
249.12	Packers & sub-surf equip	\$0.00	\$212.38	\$212.38
249.04	Surf Pumping & lifting equip	\$70,000.00	\$0.00	-\$70,000.00
249.13	Sub-surf pumps, rods, accs.	\$20,000.00	\$0.00	-\$20,000.00
249.05	Tank Battery	\$65,000.00	\$3,029.59	-\$61,970.41
249.09	Flow lines	\$25,000.00	\$106.19	-\$24,893.81
249.48	Cmpl Contingency	\$0.00	\$0.00	\$0.00
249.06	SWD Systems	\$0.00	\$0.00	\$0.00
249.07	Gathering System	\$0.00	\$0.00	\$0.00
249.08	Electrical Dist Systems	\$0.00	\$0.00	\$0.00
249.10	Other costs	\$0.00	\$0.00	\$0.00
249.14	Cathodic Protection Hole	\$0.00	\$0.00	\$0.00
249.15	Secondary Recovery Equip	\$0.00	\$0.00	\$0.00
249.16	Offshore Platform	\$0.00	\$0.00	\$0.00
249.17	Automation Equip	\$13,000.00	\$106.19	-\$12,893.81
249.18	Pressure Maintenance	\$0.00	\$0.00	\$0.00
249.102	Non operated	\$0.00	\$0.00	\$0.00
Total Tangible Cmpl Costs:		\$291,000.00	\$69,756.11	-\$221,243.89
Total Tangible Costs:		\$301,000.00	\$110,901.04	-\$190,098.96
248.57	P & A uncmpld drill hole	\$5,000.00	\$0.00	-\$5,000.00
248.18	P & A completed hole	\$0.00	\$0.00	\$0.00
Total Well Cost:		\$1,034,000.00	\$835,296.51	-\$198,703.49

Cost Overruns:

		\$ Overrun	Justification
248.05	Roads & Loc & Land	\$164,164.10	Built fencing for landowner as part of SUA. Hauling material (road base, dirt, ect.) for building of location and access roads.
248.12	Drlg rentals/surf	\$45,536.65	Unanticipated use of closed loop system
248.03	Surf / Int casing crew	\$1,073.80	Ran conductor and sfc pipe. Only budgeted for sfc.
248.09	Surf / Int cementing of csg	\$22,242.49	Ran conductor and sfc pipe. Only budgeted for sfc.
248.58	Misc labor & welding	\$4,166.48	Underestimated
248.32	Hauling drl fluids to disposal	\$77,784.64	Use of closed loop system
248.25	Misc trucking & hot shot	\$18,180.97	Underestimated
249.01	Conductor pipe	\$7,568.60	Not budgeted due to unforeseen need for conductor pipe to be set (Lowland, unconsolidated topsoil)
249.20	Surface casing	\$24,575.08	Underestimated due to escalated tubular price increases



P.C.

XTO ENERGY INC.
AUTHORITY FOR EXPENDITURE

AFE NO.: 401473
 AFE DESC: D&C AZTEC PC GAS WELL
 DATE: 07/22/2004
 AFE TYPE: DEVELOPMENT DRILLING
 OPERATOR: 81 - XTO ENERGY INC.
 SECTION/TOWNSHIP/RANGE: 24/29N/10W

DISTRICT: SAN JUAN
 FIELD: AZTEC
 ACCOUNTING ID: 68297
 WELL NAME: MARTINEZ GAS COM D 01R PC
 STATE/COUNTY: NEW MEXICO / SAN JUAN
 XTO WI DECIMAL: 0.850000000

DETAIL OF EXPENDITURES

DRYHOLE

COMPLETION

SUPPLEMENT

TOTAL

Drilling/Rig Move	74,800.00	0.00	0.00	74,800.00
Completion Unit	0.00	6,800.00	0.00	6,800.00
Surf/Int Csg Crew/Laydown Service	850.00	0.00	0.00	850.00
Roads & Location	25,500.00	0.00	0.00	25,500.00
Mud/Chemicals	10,200.00	0.00	0.00	10,200.00
Well Logging: Open Hole	9,180.00	0.00	0.00	9,180.00
Surf/Int Cement & Related Services	2,720.00	0.00	0.00	2,720.00
Bits, Mills, Reamers	8,500.00	0.00	0.00	8,500.00
Drig Rentals: Sub-Surface	6,800.00	0.00	0.00	6,800.00
Drig Rentals: Surface	1,360.00	0.00	0.00	1,360.00
Rig Fuel, Power & Water	10,200.00	0.00	0.00	10,200.00
Cased Hole Logging/Perf	0.00	3,400.00	0.00	3,400.00
Isolation & Pumping Services	0.00	80,000.00	0.00	80,000.00
Drilling Supervision	3,740.00	0.00	0.00	3,740.00
Mud Logger	3,400.00	0.00	0.00	3,400.00
Misc Supplies	510.00	0.00	0.00	510.00
Drilling Overhead	680.00	0.00	0.00	680.00
Cost of Control Insurance	1,020.00	0.00	0.00	1,020.00
Drig Trucking & Hot Shot	340.00	0.00	0.00	340.00
Completion Dress Location	0.00	340.00	0.00	340.00
Fluid Haul/Solid Control	1,360.00	0.00	0.00	1,360.00
Completion Services	0.00	1,360.00	0.00	1,360.00
Flowback	0.00	340.00	0.00	340.00
Frac Tanks/Fluid Hauling	0.00	2,210.00	0.00	2,210.00
Prod Csg Cement & Related Service	0.00	9,350.00	0.00	9,350.00
Prod Csg Crew/Laydown Service	0.00	1,530.00	0.00	1,530.00
Cmpl Rentals: Sub-Surface	0.00	680.00	0.00	680.00
Cmpl Rentals: Surface	0.00	680.00	0.00	680.00
Cmpl Engr/Supervision	0.00	1,870.00	0.00	1,870.00
Cmpl Overhead	0.00	1,700.00	0.00	1,700.00
Cmpl Trucking & Hot Shot	0.00	680.00	0.00	680.00
Plug and Abandon Unsuccessful Well	1,700.00	0.00	0.00	1,700.00
Misc Labor/Welding	340.00	0.00	0.00	340.00
Cmpl Fluid/Chem/Transp	0.00	680.00	0.00	680.00
WIP-Intan. Devlpmt Costs TOTAL:	163,200.00	111,620.00		274,820.00

Tubing	0.00	10,200.00	0.00	10,200.00
Head Equipment	1,700.00	0.00	0.00	1,700.00
Lifting & Lifting Equipment	0.00	40,000.00	0.00	40,000.00
Tank Batteries	0.00	22,100.00	0.00	22,100.00



XTO ENERGY INC.
AUTHORITY FOR EXPENDITURE

AFE NO.: 401473
AFE DESC: D&C AZTEC PC GAS WELL
DATE: 07/22/2004
AFE TYPE: DEVELOPMENT DRILLING
OPERATOR: 81 - XTO ENERGY INC.
SECTION/TOWNSHIP/RANGE: 24/29N/10W

DISTRICT: SAN JUAN
FIELD: AZTEC
ACCOUNTING ID: 68297
WELL NAME: MARTINEZ GAS COM D 01R PC
STATE/COUNTY: NEW MEXICO / SAN JUAN
XTO WI DECIMAL: 0.850000000

DETAIL OF EXPENDITURES

DRYHOLE

COMPLETION

SUPPLEMENT

TOTAL

Lease & Flow Lines	0.00	8,500.00	0.00	8,500.00
Sub-surface Pump, Rods, & Acces	0.00	10,000.00	0.00	10,000.00
Automation Equipment	0.00	4,420.00	0.00	4,420.00
Surface Casing	1,700.00	0.00	0.00	1,700.00
Production / Liner Casing	0.00	22,100.00	0.00	22,100.00
Tubing Head / X-mas Tree	0.00	1,020.00	0.00	1,020.00
WIP-Lease & Well Equip. TOTAL:	3,400.00	118,340.00		121,740.00

TOTAL THIS AFE:

166,600.00

229,960.00

396,560.00

*** This AFE is an estimate only. By returning one signed copy, you agree to pay your share of the actual costs incurred. ***

REMARKS: D&C AZTEC PC GAS WELL

Prepared By: LeAnna Hanhardt

Approved By: Keith Hutton

Signature: _____

Non Operator Approval

DATE _____

COMPANY _____

BY _____

TITLE _____



CHACRA

XTO ENERGY INC.
AUTHORITY FOR EXPENDITURE

AFE NO.: 807496
 AFE DESC: D&C OTERO CH GAS WELL
 DATE: 09/23/2008
 AFE TYPE: DEVELOPMENT DRILLING
 OPERATOR: 81 - XTO ENERGY INC.
 SECTION/TOWNSHIP/RANGE: 24/29N/10W

DISTRICT: SAN JUAN
 FIELD: OTERO
 ACCOUNTING ID: 96743
 WELL NAME: MARTINEZ GAS COM D 01R CH
 STATE/COUNTY: NEW MEXICO / SAN JUAN
 XTO WI DECIMAL: 0.921875000

DETAIL OF EXPENDITURES

DRYHOLE

COMPLETION

SUPPLEMENT

TOTAL

Drilling/Rig Move	145,200.00	0.00	0.00	145,200.00
Completion Unit	0.00	13,200.00	0.00	13,200.00
Surf/Int Csg Crew/Laydown Service	1,650.00	0.00	0.00	1,650.00
Roads & Location	49,500.00	0.00	0.00	49,500.00
Mud/Chemicals	19,800.00	0.00	0.00	19,800.00
Well Logging: Open Hole	17,820.00	0.00	0.00	17,820.00
Surf/Int Cement & Related Services	5,280.00	0.00	0.00	5,280.00
Bits, Mills, Reamers	16,500.00	0.00	0.00	16,500.00
Drig Rentals: Sub-Surface	13,200.00	0.00	0.00	13,200.00
Drig Rentals: Surface	2,640.00	0.00	0.00	2,640.00
Rig Fuel, Power & Water	19,800.00	0.00	0.00	19,800.00
Cased Hole Logging/Perf	0.00	6,600.00	0.00	6,600.00
Regulation & Pumping Services	0.00	80,000.00	0.00	80,000.00
Drilling Supervision	7,260.00	0.00	0.00	7,260.00
Mud Logger	6,600.00	0.00	0.00	6,600.00
Misc Supplies	990.00	0.00	0.00	990.00
Drilling Overhead	1,320.00	0.00	0.00	1,320.00
Cost of Control Insurance	1,980.00	0.00	0.00	1,980.00
Drig Trucking & Hot Shot	660.00	0.00	0.00	660.00
Completion Dress Location	0.00	660.00	0.00	660.00
Fluid Haul/Solid Control	2,640.00	0.00	0.00	2,640.00
Completion Services	0.00	2,640.00	0.00	2,640.00
Flowback	0.00	660.00	0.00	660.00
Frac Tanks/Fluid Hauling	0.00	4,290.00	0.00	4,290.00
Prod Csg Cement & Related Service	0.00	18,150.00	0.00	18,150.00
Prod Csg Crew/Laydown Service	0.00	2,970.00	0.00	2,970.00
Cmpl Rentals: Sub-Surface	0.00	1,320.00	0.00	1,320.00
Cmpl Rentals: Surface	0.00	1,320.00	0.00	1,320.00
Cmpl Engr/Supervision	0.00	3,630.00	0.00	3,630.00
Cmpl Overhead	0.00	3,300.00	0.00	3,300.00
Cmpl Trucking & Hot Shot	0.00	1,320.00	0.00	1,320.00
Plug and Abandon Unsuccessful Well	3,300.00	0.00	0.00	3,300.00
Misc Labor/Welding	660.00	0.00	0.00	660.00
Cmpl Fluid/Chem/Transp	0.00	1,320.00	0.00	1,320.00
WIP-Intan. Devlpmt Costs TOTAL:	316,800.00	141,380.00		458,180.00

Tubing	0.00	19,800.00	0.00	19,800.00
Head Equipment	3,300.00	0.00	0.00	3,300.00
Pumping & Lifting Equipment	0.00	30,000.00	0.00	30,000.00
Tank Batteries	0.00	42,900.00	0.00	42,900.00



XTO ENERGY INC.
AUTHORITY FOR EXPENDITURE

AFE NO.: 807496
AFE DESC: D&C OTERO CH GAS WELL
DATE: 09/23/2008
AFE TYPE: DEVELOPMENT DRILLING
OPERATOR: 81 - XTO ENERGY INC.
SECTION/TOWNSHIP/RANGE: 24/29N/10W

DISTRICT: SAN JUAN
FIELD: OTERO
ACCOUNTING ID: 96743
WELL NAME: MARTINEZ GAS COM D 01R CH
STATE/COUNTY: NEW MEXICO / SAN JUAN
XTO WI DECIMAL: 0.921875000

DETAIL OF EXPENDITURES	DRYHOLE	COMPLETION	SUPPLEMENT	TOTAL
Lease & Flow Lines	0.00	16,500.00	0.00	16,500.00
Sub-surface Pump, Rods, & Acces	0.00	10,000.00	0.00	10,000.00
Automation Equipment	0.00	8,580.00	0.00	8,580.00
Surface Casing	3,300.00	0.00	0.00	3,300.00
Production / Liner Casing	0.00	42,900.00	0.00	42,900.00
Tubing Head / X-mas Tree	0.00	1,980.00	0.00	1,980.00
WIP-Lease & Well Equip. TOTAL:	6,600.00	172,660.00		179,260.00

TOTAL THIS AFE:	323,400.00	314,040.00	637,440.00
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*** This AFE is an estimate only. By returning one signed copy, you agree to pay your share of the actual costs incurred. ***

REMARKS: D&C OTERO CH WELL

Prepared By: LeAnna Hanhardt

Approved By: Terry Perkins

Signature: _____

Non Operator Approval

DATE _____

COMPANY _____

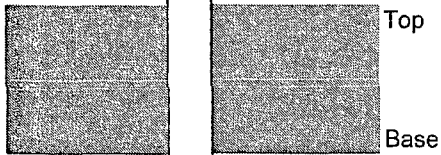
BY _____

TITLE _____

N = # of Objective Formations
 I1 = First/ Shallowest Formation
 I2 = Second Shallowest Formation
 Basex = Base of formation x

Objective 1

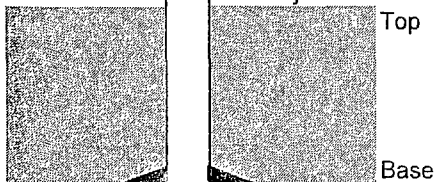
Cost Allocation to I1



$$\begin{aligned} & ((1/N) * \text{Base1}) / \text{Total well depth} \\ & ((1/2) * 2135) / 3150 \\ & = 34\% \text{ of total well cost} \end{aligned}$$

Objective 2

Cost Allocated to I2



$$\begin{aligned} & \{((1/N) * \text{Base1}) + ((1/N-1) * (\text{Base2}-\text{Base1}))\} / \text{Total Well D} \\ & = \{((1/2) * 2135) + ((1/(2-1)) * (3150-2135))\} / 3150 \\ & = 66\% \text{ of Total Well Cost} \end{aligned}$$

ARTICLE XV. L.

COST ALLOCATION PROCEDURES

The entire costs, risk and expenses involved in drilling, testing, completing, equipping, reworking, deepening, plugging back and operating a well located on the Contract Area, in the event such well is completed in or proposed to be completed in two or more formations in which the working interest ownership differs, or in plugging and abandoning such well in one or more formations, shall be governed by the following provisions:

A. Definitions

"Objective Formation" - the interval consisting of a zone, formation or horizon to be tested in a proposed operation, as stated in the AFE or notice whereby such operation was proposed.

"Participating Interest" - the percentage of the costs and risks of conducting an operation under the applicable operating agreement that a Participating Party agrees, or is otherwise obligated, to pay and bear.

"Participating Party" - with respect to a given formation, a Party that has approved a proposed operation or otherwise agreed, or become liable, to pay and bear a share of the costs and risks of conducting such operation under the applicable operating agreement.

References herein to multiple completion wells shall mean wells which are completed in, or proposed to be completed in, two or more formations, regardless of whether such formations are produced through separate tubing strings or commingled downhole.

B. Formula for Allocation of Drilling, Completing, and Equipping Costs

Whenever in this Agreement it is provided that costs will be borne by the Parties in accordance with this Section B, the following procedures will be used:

At the time a Party proposes the drilling of a well having two or more Objective Formations in which the working interest ownership differs, the proposing Party shall submit to the other Parties who are entitled to participate in the proposed operation, an estimate of the total costs of drilling, testing, completing and equipping said well to, and including, the wellhead in all Objective Formations. In a like manner, a Party which proposes to conduct a reworking, deepening, or plugging back operation on a well involving two or more formations in which the working interest ownership differs, shall submit to the other Parties entitled to participate in the proposed operation, an estimate of the total cost of the operation. The estimated costs shall be divided into the following categories:

- Costs to be incurred from the surface to the base of the shallowest Objective Formation, including pre-drilling costs that benefit all Objective Formations, but excluding those costs set forth in subsection B (5) hereof;
- Costs to be incurred from the base of the shallowest Objective Formation to the base of the next (second) shallowest Objective Formation, excluding those set forth in subsection B (5) hereof;
- Costs to be incurred from the base of the second shallowest Objective Formation to the base of the next (third) shallowest Objective Formation, excluding those set forth in subsection B (5) hereof;
- Costs incurred from the base of the second deepest Objective Formation to total depth;
- Costs attributable to testing and completing each formation, and the cost of equipping the well with respect to equipment that is used solely in connection with one formation; and
- Costs attributable to equipping the well beyond the wellhead, with respect to equipment that serves more than one formation.

The actual costs of drilling, testing, completing, and equipping the well will be apportioned among the Objective Formations, in accordance with the categories set forth above in this Section B, as follows:

(1) Except as provided in Subsection B (5), pre-drilling costs that benefit all Objective Formations (including, but not limited to site surveys, site preparation, right-of-way and surface damage payments) shall be divided equally between all Objective Formations and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formations.

(2) Except as provided in Subsection B (5), costs incurred from the surface to the base of the shallowest Objective Formation shall be divided between all Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.

(3) Except as provided in Subsection B (5), costs incurred from the base of the shallowest Objective Formation to the base of the next shallowest (second) Objective Formation shall be divided between the second Objective Formation and all other deeper Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein in accordance with their respective Participating Interest in such formation. In a like manner, costs incurred from the base of the second Objective Formation to the base of the next shallowest (third) Objective Formation, other than those set forth in Subsection B (5), shall be divided between the third Objective Formation and all other deeper Objective Formations as provided in Subsection B (6) and charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.

(4) Costs incurred from the base of the second deepest Objective Formation to total depth shall be charged to the Participating Parties in the deepest formation, in accordance with their respective Participating Interest in such formation.

(5) Costs attributable to logging, testing, perforating, treating, stimulating and abandoning a given formation shall be charged to the Participating Parties therein, in accordance with their respective Participating Interests in such formation. The cost of equipping the well, with respect to equipment that is used solely in connection with a given formation, shall be charged to the Participating Parties therein, in accordance with their respective Participating Interest in such formation.

The cost of acquiring and installing surface equipment beyond the wellhead that serves more than one formation shall be allocated equally to the formations served, except as otherwise provided in the "Taking Production in Kind" provision in the Operating Agreement. Equipping costs so allocated shall be charged to the Participating Parties in each such formation in accordance with their respective Participating Interest in such formation.

(6) Except for those specific types of well completions identified in Subsection B (7), the cost of drilling, production casing, and tubing that serves more than one Objective Formation shall be allocated to the Participating Parties of each respective Objective Formation, pursuant to Subsections (2), (3), and (4) of this Section B, on a footage basis as follows:

n = number of Objective Formations

I_1 = First, or shallowest interval

I_2 = Second shallowest interval

I_3 = Third shallowest interval

Base_x = Footage at the base of the x interval

Cost allocated to I_1 :

$(1/n * \text{Base}_1) / \text{Total Depth}$

Cost allocated to I_2 :

$[(1/n * \text{Base}_1) + ((1/(n-1)) * (\text{Base}_2 - \text{Base}_1))] / \text{Total Depth}$

Cost allocated to I_3 :

$[(1/n * \text{Base}_1) + ((1/(n-1)) * (\text{Base}_2 - \text{Base}_1)) + ((1/(n-2)) * (\text{Base}_3 - \text{Base}_2))] /$

Total Depth

If there are more than three (3) Objective Formations, costs shall be allocated to such other formations in a like manner.

(7) If the Objective Formations are a combination of Fruitland Coal and Pictured Cliffs or a combination of the Mesaverde and Dakota, the Parties agree that, rather than calculating a unique set of factors for each well, the cost of drilling, production casing, and tubing that serves more than one Objective Formation shall be allocated based on the average relative footage for the following formations in the San Juan Basin, as set forth in the following table:

Formation	Base of Formation	FC/PC	MV/ DAK
Fruitland Coal	2700'	47%	
Pictured Cliffs	2900'	53%	
Mesa Verde	5600'		40%
Dakota	7000'		60%

C. Drilling and Completing Wells in All Objective Formations

Costs of drilling, testing, completing, and equipping wells to, and including, the wellhead which are begun with the objective of multiple completions and which are completed in all Objective Formations shall be borne by the Participating Parties in each Objective Formation in accordance with the provisions of Section B. The material and equipment in the well and on the surface shall be owned by the Parties paying the cost thereof pursuant to Section B. As to any well which was begun with the objective of multiple completions, drilling overhead shall be charged as though the well were a single well to be drilled to test the deepest formation, and borne in accordance with Section B. The working interest owners shall own all oil and gas produced from their respective formations in accordance with the applicable operating agreement for such formation.

Upon abandonment of the well, if dry in all formations, the costs of plugging and abandoning shall be borne in accordance with the provisions of Section B.

D. Completion of Well in Fewer than All Objective Formations

In the event that a well begun with the objective of multiple completions is drilled to the deepest formation and results in discovery of oil and/or gas in paying quantities in one or more Objective Formations, but is dry in one or more Objective Formations, all costs of drilling, testing, and completing the well shall be borne by the Participating Parties in each Objective Formation in accordance with Section B. Likewise, all costs of equipping the well prior to the decision to abandon the dry formation(s) shall be borne by the Participating Parties in each Objective Formation in accordance with Section B. All costs of equipping the well subsequent to the decision to abandon the dry formation(s) shall be borne by the Participating Parties in the formation(s) being completed and if there are two or more formations being completed, the equipping costs shall be apportioned between such formations in accordance with Section B. Further, the Participating Parties as to the formation(s) being completed shall pay to the Participating Parties of the formation being abandoned the value of any salvable material and equipment paid for or furnished by such abandoning Parties which is used in connection with the formation being completed. Thereafter, the Participating Parties in the completed formation(s) shall own all materials and equipment acquired and installed in the drilling and completion of said well. The working interest owners in the completed formation(s) shall own all oil and gas produced from their respective formation in accordance with the applicable operating agreement, and shall bear all costs of operating, reworking, and plugging and abandoning the well which accrue thereafter. Notwithstanding anything to the contrary herein, the cost of abandoning the dry formation shall be borne by the working interest owners of the formation(s) being abandoned, in accordance with the applicable operating agreement. If the formation being abandoned is the deepest formation, the working interest owners in the deepest formation shall bear the cost of abandoning the entire portion of the well below the base of the second deepest formation, in accordance with the applicable operating agreement.

E. Partial Abandonment After Completion of Well in Multiple Formations

In the event that, after completion of a well in two or more formations, the working interest owners of a given formation should decide to abandon the well as to their formation, the Participating Parties in the formation open to production ("Producible Formation") shall pay to the working interest owners of the formation to be abandoned ("Abandoning Parties"), the salvage value of any materials or equipment belonging to the Abandoning Parties that are used in connection with the Producible Formation. If there is more than one Producible Formation, such payment shall be apportioned between the Producible Formations so as to be consistent with the ownership of material and equipment as set forth in Section B. Upon making such payment, the Participating Parties as to the Producible Formation(s) shall own all of such materials and equipment. The working interest owners in the Producible Formation(s) shall own all oil and gas produced from their respective formation in accordance with the applicable operating agreement, and shall bear all cost of operating, reworking, and plugging and abandoning the well which accrue thereafter. Notwithstanding anything to the contrary herein, the cost of abandoning the formation to be abandoned shall be borne by the Abandoning Parties, in accordance with the applicable operating agreement. If the formation being abandoned is the deepest formation, the Abandoning Parties in the deepest formation shall bear the cost of abandoning the entire portion of the well below the base of the second deepest formation, in accordance with the applicable operating agreement.

F. Adding Completions and Commingling

Operations to deepen the well or recomplete the well at a shallower depth for the purpose of completing additional formations shall be proposed and approved by the Parties entitled to participate in the proposed completion attempt in accordance with the applicable operating agreement. Before any well which is completed in one or more formations may be deepened or recompleted at a shallower depth for the purpose of completing the well in an additional formation, such operation must have non-objection by all Participating Parties in each formation which is then capable of producing in paying quantities in such well. Failure of a Party owning an interest in a formation capable of producing in paying quantities to respond to a request for non-objection to a proposed deepening or recompletion within thirty (30) days after receipt of such request shall be deemed non-objection to such deepening or recompletion. Any Party owning a Participating Interest in a formation which is entitled to participate in the proposed deepening or recompletion shall have an election whether or not to participate in such deepening or recompletion operation that is separate from its non-objection to use of the wellbore. If the operation should result in an impairment of production from, or a loss of, the existing well, the provisions of Subsections H (4), (5) and (6) shall govern unless otherwise agreed.

As compensation for use of the wellbore the Participating Parties in the additional completion shall pay to said Participating Parties in each such formation then capable of producing in paying quantities ("Producing Parties") an amount calculated as set forth hereinbelow ("Wellbore Compensation"). Such Wellbore Compensation shall be equal to that portion of the Deemed Drilling Costs, depreciated as provided below, which the Participating Parties would have borne if they had originally participated in the drilling of the well under the terms of this Agreement. The Deemed Drilling Costs shall mean the applicable stated cost which corresponds to the deepest depth of the wellbore which will be used by the Participating Parties as follows: Fruitland Coal - \$130,000; Pictured Cliffs - \$130,000; and Mesa Verde - \$210,000. In the event that the additional completion is proposed in a formation other than those listed above, the Deemed Drilling Costs for such other formation shall be adjusted in the proportion that the depth and associated costs for such other formation reasonably bears to the depth and associated costs for the formations listed above. The applicable Deemed Drilling Costs shall be depreciated on a straight-line depreciation basis over a twenty (20) year period commencing as of the original completion date of the subject wellbore until the commencement date of operations for the additional completion.

If the estimated cost of commingling formations exceeds the Operator's expenditure limit under the Operating Agreement, the proposing Party shall submit an authority for expenditure to the Participating Parties in the formations proposed to be commingled. Notwithstanding anything to the contrary in the Operating Agreement, failure to respond to a proposal to commingle that does not include other operations in the well, within thirty (30) days after receipt of the proposal, shall be deemed approval of such commingling. The cost of the commingling operation shall be borne equally by all formations being commingled.

G. Allocation of Operating and Maintenance Costs

After completion of a well in two or more formations, the costs of producing operations shall be borne by the Participating Parties as to such formations as follows:

(1) Notwithstanding anything to the contrary in the Accounting Procedure, each active completion which is not commingled downhole shall be treated as a separate well for producing well overhead. Such expense shall be borne by the Participating Parties of the respective formations as a separate cost allocable to their interest. Active completions that are commingled shall be treated as one well for the purpose of charging producing well overhead and such charge shall be allocated equally to the Participating Parties in each commingled formation.

(2) The Participating Parties as to each formation shall bear all costs of routine producing operations including costs of labor, repairs, maintenance and replacement of equipment attributable solely to such formation. All costs of operations performed for the joint benefit of two or more formations shall be borne equally by the formations benefiting from such operations and charged to the Participating Parties in each such formation in accordance with their respective Participating Interest in such formation.

H. Allocation of Cost of Workover Operations

After completion of a well in two or more formations, a proposed workover, repair or other operation, excluding routine repair or maintenance work, shall be approved by the Parties owning a Participating Interest in all formations which are capable of producing in paying quantities, whether or not such formations are to undergo the proposed workover, repair or other operation. The costs and risk of any workover, repair or other operations on such well shall be borne by the Participating Parties in such workover, repair or other operation as follows:

(1) The costs and risk of any workover, repair or other operation which is directly related to one formation, including but not limited to operations such as re-perforating the casing or stimulating

the formation, shall be borne by the Participating Parties in the formation for which the workover, repair or other operation is performed.

(2) All costs and risk of any workover, repair, or other operation not directly related to one formation, including but not limited to repair and correction of leaks which may result in communication between formations within the well bore shall be borne equally by the formations benefiting from such work, and charged to the owners of each such formation in accordance with their respective Participating Interests.

(3) Any material and equipment acquired by any such expenditures provided for in Subsection H(1) and H(2) above shall be owned by the Participating Parties of the respective formations so as to be consistent with the ownership of the material and equipment as set forth in Section B.

(4) The working interest owners of the formation undergoing the workover, repair or other operation shall not be liable to the working interest owners of the formation(s) not being worked upon for cessation of production during such operations for a period of time not exceeding a cumulative total of sixty (60) days. In the event cessation of production during such operations is for a longer period of time, the Parties participating in such workover, repair, or other operation, hereinafter referred to as Remedial Owners, shall pay to the Participating Parties as to the formation not being worked upon, hereinafter referred to as Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly for loss of production occurring for each day in excess of such sixty (60) cumulative day period until such production is restored. If the Parties are unable to reach agreement on damages within one hundred eighty (180) days after written request for damage payments, the matter shall be referred to mediation, pursuant to Section K.

(5) If the producing capacity of the formation not undergoing the workover, repair or other operation is reduced in excess of twenty percent (20%) as a result of such workover, repair or other operation, damages will be deemed to have occurred. If damages have occurred, the Remedial Owners shall pay to the Damaged Owners, damages in such amount as shall be determined by Remedial Owners and Damaged Owners jointly for loss of producing capacity. If the Parties are unable to reach agreement on damages within one hundred eighty (180) days after written request for damage payments, the matter shall be referred to mediation, pursuant to Section K.

(6) It is understood, however, that liability for loss or damages under Subsections H (4) and H (5) shall not accrue hereunder if: (1) such loss or damage existed prior to actual commencement of the operations or prior to penetration by workover equipment of the damaged formation, and (2) the evidence is conclusive that the loss or damage resulted solely from the previously existing poor mechanical condition of the well. In no event shall Remedial Owners be required to pay Damaged Owners an amount greater than the cost of drilling and completing a replacement well.

I. Payments

If the amount of any payment due by working interest owners of one formation to the working interest owners of another formation(s), pursuant to Sections D, E, F, or H above, is agreed to by Parties having at least seventy-five percent (75%) Participating Interest in each of the respective formations, such agreement shall be binding on all Parties. Within thirty (30) days after agreement as to the amount of payment due, Operator shall invoice the working interest owners owing such payment. Within thirty (30) days after receipt of the invoice, each Party owing such payment shall send its payment to the Operator. The Operator will distribute the payments so received, along with any payment owed by the Operator, to the owners of the formation to whom payment is due within sixty (60) days after the invoice is issued. The Operator shall make a good faith effort to collect any such payments owed by the non-operators. If any non-operator fails to make a payment due hereunder, the Operator may, after making a good faith effort to collect, turn over the responsibility for collecting the payment to the Party to whom it is owed, and the Operator will have no further liability with regard to such payment.

J. Non-Consent Wells

Any payments made by owners of one formation to the owners of another formation(s) pursuant to Sections D, E, F, or H above, that would have been received by a Non-Consenting Party had it not relinquished its interest in the well, shall be credited against the total unreturned costs of the non-consent operation in determining when the interest of such Non-Consenting Party shall revert to it as provided in the applicable Operating Agreement; and if there is a credit balance, it shall be paid to such Non-Consenting Party. Likewise, any payments made by owners of a formation to owners of another formation(s) pursuant to Sections D, E, F or H above, that would have been made by a Non-Consenting Party had it not relinquished its interest in the well shall be deemed to be part of the cost of the non-consent operation and shall be added to the sums to be recouped by the Consenting Parties as provided in the applicable Operating Agreement.

K. Dispute Resolution

If a dispute arises between the Parties under this Agreement and is not resolved by negotiation, the dispute shall be submitted to mediation before any Party resorts to litigation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties to the dispute shall each have present at the mediation at least one individual who has authority to settle the dispute. The Parties shall make reasonable efforts to ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any Party may file a complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60) days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or to preserve the status quo. Despite such actions, the Parties shall continue to try to resolve the dispute by negotiation or mediation as necessary.