

December 4, 2006

FEDEX OVERNIGHT

S. G. Methane Company, Inc.  
811 Dallas Suite 1505  
Houston TX 77002

Re: Martinez Gas Com D #1R Well Proposal  
NE/4 of Sec. 24, T29N-R10W  
San Juan County, New Mexico

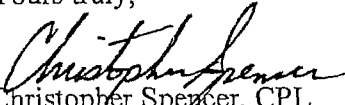
Ladies and Gentlemen:

XTO hereby proposes the drilling and completion of the Martinez Gas Com D #1R Well on the captioned lands to develop the Pictured Cliffs Formation. The proposed location for the well is 1140' FNL and 1580' FEL. In connection with this proposal, please find enclosed AFE No. 401473 in the gross amount of 464,000.00.

Also enclosed for your review is our Operating Agreement covering the captioned lands as to the Pictured Cliffs Formation. The enclosed Operating Agreement is a standard form of agreement regularly used by XTO and other operators in the San Juan Basin. Kindly review the enclosed Operating Agreement to verify that it meets with your approval.

Please make your election below and return one copy of this letter to my attention along with the AFEs and extra signature page to the Operating Agreement. Your early consideration of this matter will be much appreciated. Please call me at (817) 885-2540 with any land related questions. Technical questions should be directed to Mr. Robin Tracy at (817) 885-2422.

Yours truly,

  
Christopher Spencer, CPL  
Landman

/cks

Enclosures

*S. G. Methane Company, Inc.  
Martinez Gas Com D #1R Well Proposal  
December 4, 2006  
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\_\_\_\_\_ **Elect to participate** in the drilling and completion of the Martinez Gas Com D #1R Well described hereinabove.

\_\_\_\_\_ **Elect to go Non-Consent** in the drilling and completion of the Martinez Gas Com D #1R Well described hereinabove, subject to the Non-Consent penalties as set-out in the governing operating agreement.

**S. G. METHANE COMPANY, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

December 28, 2006

Christopher Spencer, CPL  
Landman  
XTO Energy Inc.  
810 Houston Street  
Fort Worth, TX 76102-6298

Re: Martinez Gas Com D #1 R  
NE/4 Section 24, T29N-R10W  
San Juan County, NM

Dear Mr. Spencer:

SG Methane Company, Inc. is in receipt of your proposal to drill the referenced well, AFE and proposed Joint Operating Agreement. SG elects to participate in the drilling of the referenced well, subject to your acceptance of the following conditions and modifications to the Joint Operating Agreement:

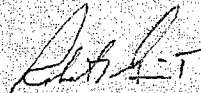
1. Article II, (EXHIBITS) Paragraph A, Subparagraph (4) shall be deleted;
2. Article IV, (TITLES) Paragraph B, Subparagraph Nos. 1 and 2 shall be deleted;
3. Article IV, (TITLES) Paragraph B, Subparagraph No. 3: Line 60: "of title" shall be deleted;
4. Article VII, (EXPENDITURES AND LIABILITY OF PARTIES) Paragraph E, Line 35: The words "Article IV.B.2" shall be replaced with "Article IV.B.3";
5. Article XV, (OTHER PROVISIONS) Paragraph J shall be changed to: "In the event any party shall every be required to bring legal proceedings in order to collect any sums due from any other party under this Agreement, then the prevailing party shall also be entitled to recover all court costs, costs of collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.";
6. Exhibit "A": The Address, Phone Number and Fax Number of SG Methane Company, Inc., shall be as shown on this letterhead.

Enclosed is a conditionally-executed signature page to the JOA, executed AFE, and executed proposal letter, along with our well requirement sheet. Please indicate your acceptance of our conditions and modifications to the JOA in the space below and return one copy of this letter to the undersigned.

Please contact me if you have any questions.

Sincerely,

SG METHANE COMPANY, INC.



Robert H. Guinn, II  
Vice President

AGREED TO AND ACCEPTED THIS  
12<sup>th</sup> DAY OF January, 2007.

XTO ENERGY INC.

By: Edwin S. Ryan, Jr.

Name: EDWIN S. RYAN, JR.

Title: SR VP-Land

CS  
row



**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 1R PC  
STATE/COUNTY: NEW MEXICO / SAN JUAN  
XTO WI DECIMAL: 0.850000000

DETAIL OF EXPENDITURES	DRYHOLE	COMPLETION	SUPPLEMENT	TOTAL
Drilling/Rig Move	75,000.00	0.00	0.00	75,000.00
Completion Unit	0.00	10,000.00	0.00	10,000.00
Surf/Int Csg Crew/Laydown Service	2,000.00	0.00	0.00	2,000.00
Roads & Location	12,000.00	0.00	0.00	12,000.00
Mud/Chemicals	5,000.00	0.00	0.00	5,000.00
Well Logging: Open Hole	9,000.00	0.00	0.00	9,000.00
Surf/Int Cement & Related Services	5,500.00	0.00	0.00	5,500.00
Bits, Mills, Reamers	5,000.00	0.00	0.00	5,000.00
Drlg Rentals: Sub-Surface	1,000.00	0.00	0.00	1,000.00
Drlg Rentals: Surface	7,000.00	0.00	0.00	7,000.00
Rig Fuel, Power & Water	10,000.00	0.00	0.00	10,000.00
Cased Hole Logging/Perf	0.00	11,000.00	0.00	11,000.00
Stimulation & Pumping Services	0.00	80,000.00	0.00	80,000.00
Drlg Supervision (Co & Contract)	11,000.00	0.00	0.00	11,000.00
Drlg Overhead	2,000.00	0.00	0.00	2,000.00
Drlg Trucking & Hot Shot	4,000.00	0.00	0.00	4,000.00
Completion Dress Location	0.00	1,000.00	0.00	1,000.00
Fluid Haul/Solid Control	6,000.00	0.00	0.00	6,000.00
Flowback	0.00	1,000.00	0.00	1,000.00
Frac Tanks/Fluid Hauling	0.00	15,000.00	0.00	15,000.00
Prod Csg Cement & Related Service	0.00	12,000.00	0.00	12,000.00
Prod Csg Crew/Laydown Service	0.00	3,000.00	0.00	3,000.00
Cmpl Rentals: Sub-Surface	0.00	1,000.00	0.00	1,000.00
Cmpl Rentals: Surface	0.00	1,000.00	0.00	1,000.00
Cmpl Engr/Supervision	0.00	3,000.00	0.00	3,000.00
Cmpl Overhead	0.00	3,000.00	0.00	3,000.00
Cmpl Trucking & Hot Shot	0.00	3,000.00	0.00	3,000.00
Plug and Abandon Unsuccessful Well	10,000.00	0.00	0.00	10,000.00
Cmpl Fluid/Chem/Transp	0.00	7,500.00	0.00	7,500.00
<b>WIP-Intan. Devlpmt Costs TOTAL:</b>	<b>164,500.00</b>	<b>151,500.00</b>		<b>316,000.00</b>
Tubing	0.00	5,000.00	0.00	5,000.00
Wellhead Equipment	3,000.00	0.00	0.00	3,000.00
Pumping & Lifting Equipment	0.00	30,000.00	0.00	30,000.00
Tank Batteries	0.00	37,000.00	0.00	37,000.00
Lease & Flow Lines	0.00	1,000.00	0.00	1,000.00
Sub-surface Pump, Rods, & Acces	0.00	15,000.00	0.00	15,000.00
Automation Equipment	0.00	13,000.00	0.00	13,000.00
Pressure Maintenance	5,000.00	0.00	0.00	5,000.00
Production / Liner Casing	0.00	20,000.00	0.00	20,000.00



**XTO ENERGY INC.**  
**AUTHORITY FOR EXPENDITURE**

AFE NO.: 401473  
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DATE: 07/22/2004  
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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 1R PC  
STATE/COUNTY: NEW MEXICO / SAN JUAN  
XTO WI DECIMAL: 0.850000000

DETAIL OF EXPENDITURES	DRYHOLE	COMPLETION	SUPPLEMENT	TOTAL
Tubing Head / X-mas Tree	0.00	10,000.00	0.00	10,000.00
Wellhead Comp Install	0.00	9,000.00	0.00	9,000.00
WIP-Lease & Well Equip. TOTAL:	8,000.00	140,000.00		148,000.00
<b>TOTAL THIS AFE:</b>	<b>172,500.00</b>	<b>291,500.00</b>		<b>464,000.00</b>

\*\*\* 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: Kristen Lynch

Approved By: Loren Fothergill

Signature: \_\_\_\_\_

**Non Operator Approval**

DATE: 12/22/06

COMPANY: SG Methane

BY: [Signature]

TITLE: VP