



Cross Timbers Oil Company

March 20, 2000

Working Interest Owners
(see attached list)

RE: New Well Proposal
Trujillo Gas Com #1R
SW/4 Section 21-29N-10W
San Juan County, New Mexico

Gentlemen:

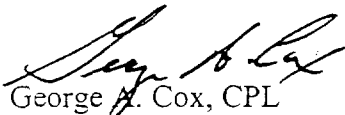
Cross Timbers Oil Company hereby proposes the above captioned well be drilled in the SW/4 of Section 21-29N-10W to test the Pictured Cliffs formation at a depth of approximately 2,050 feet. Our location of the well would be 1,835' FSL and 1,910' FWL of the SW/4. Our anticipated AFE cost for a dry hole is \$56,800 with a completed cost of \$169,600.

A copy of our AFE is enclosed for your review and approval. Also enclosed is a Joint Operating Agreement for the drilling of the above captioned well. Please review the agreement and return an executed signature page along with an executed AFE to the undersigned.

Should you desire **not to** participate in the drilling of the proposed well, Cross Timbers would be willing to (1) purchase your leasehold rights for \$100.00 per acre from the surface to the base of the Pictured Cliffs formation, or (2) you may execute the operating agreement and elect to the non-consent provisions in the operating agreement. Please return a copy of second page with your election.

Upon receipt of acceptance from all parties, Cross Timbers will proceed with the drilling of the well. If you elect to join in the drilling of the well, please also provide your well requirement list for the distribution of well information and logs. Should you have any question, please feel free to contact me at (817) 885-2454. Your immediate attention to this matter would be appreciated so that we may proceed with the drilling of the well.

Sincerely,
CROSS TIMBERS OIL COMPANY


George A. Cox, CPL
Landman

Enclosures

Trujillo Gas Com #1R
March 20, 2000
Page 2

The undersigned approves this ____ day of _____, 2000, the drilling of the Trujillo Gas Com #1R Well

Name: _____

Title: _____

Company: _____

The undersigned approves this ____ day of _____, 2000, elects to sell its leasehold interest under the captioned land for \$100 per acre to Cross Timbers Oil Company.

Name: _____

Title: _____

Company: _____

The undersigned approves this ____ day of _____, 2000, elects to non-consent the drilling of the Trujillo Gas Com #1R subject the the non-consent provisions as described in the March 20, 2000 Joint Operating Agreement.

Name: _____

Title: _____

Company: _____

WORKING INTEREST OWNERS
TRUJILLO GAS COM #1R
SW/4 SECTION 21-29N-10W
SAN JUAN COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER:</u>	<u>WI %</u>
Cross Timbers Oil Company 810 Houston Street, Suite 2000 Fort Worth, Texas 76102	75.00%
SG Methane Company, Inc. 1331 Lamar, Suite 501 Houston, Texas 77010 Attention: Robby Gwinn	13.75%
R&W Company 8101 E. Dartmouth, Apt. 84 Denver, CO 80231	5.00%
Barbara M. Bramley Trust Dated April 16, 1982 7188 S. Poplar Lane Englewood, CO 80112	5.00%
Frederick L. Lilly and Gladys Lilly, his wife For their lifetime 2895 Brighton Road Shaker Heights, Ohio 44120	1.25%
Frederick L. Lilly, Jr., Remainderman 2895 Brighton Road Shaker Heights, Ohio 44120	0.00%
	<hr/>
	100.00%



Cross Timbers Operating Company

AUTHORITY FOR EXPENDITURE

AFE No. _____ Lease Name Trujillo Gas Com Well No. 1R
Description SW/4 of Sec 21, T29N R10W County San Juan
State New Mexico Area San Juan Division Operator CTOC
Project Drill & Complete a Pictured Cliffs Gas Well Prepared by BL Smith / RF Martin
Exploration _____ Development X Recompletion _____ T.D. _____ 2050' Date 10/06/1999

24x_xx		INTANGIBLE	TANGIBLE	TOTAL
8-01	CONDUCTOR HOLE / RATHOLE			\$0
8-01	DAYWORK DRILLING	\$2,000		\$2,000
8-01	FOOTAGE DRILLING	\$17,500		\$17,500
8-01	MOVING RIG			\$0
8-01	TURNKEY DRILLING			\$0
8-03	CONTRACT LABOR	\$1,000		\$1,000
8-04	TRUCKING	\$1,000		\$1,000
8-05	LOCATION / ROADS / PITS	\$5,000		\$5,000
8-06	MUD / CHEMICALS	\$2,000		\$2,000
8-06	WATER & WATERLINES	\$4,000		\$4,000
8-07	DST / WL FORMATION TESTING			\$0
8-08	OPEN HOLE LOGS	\$4,000		\$4,000
8-09	CEMENT & CEMENTING SERVICES	\$2,000		\$2,000
8-10	DRILL BITS			\$0
8-10	POWER & FUEL			\$0
8-11	CASING CREWS, TOOLS & TONGS			\$0
8-12	RENTAL TOOLS & EQUIPMENT	\$1,500		\$1,500
8-15	CORING & CORE ANALYSIS			\$0
8-16	PUMP TRUCKS & SERVICES			\$0
8-17	ENGINEERING / SUPERVISION 6 days @ \$500/day	\$3,000		\$3,000
8-18	MUD LOGGING UNIT			\$0
8-18	DIRECTIONAL TOOLS & SERVICE			\$0
8-18	FISHING TOOLS & SERVICE			\$0
8-21	LAND DAMAGES / LEGAL WORK	\$5,000		\$5,000
9-01	OVERHEAD 6 days @ \$300/ day	\$1,800		\$1,800
9-01	CONDUCTOR PIPE			\$0
9-01	INTERMEDIATE CASING			\$0
9-01	SURFACE CASING 7" @ 200'		\$1,400	\$1,400
9-03	BRADENHEAD		\$1,000	\$1,000
9-10	NON-CONT. TANG. EQUIP. DRLG.			\$0
CONTINGENCIES 5%		\$2,500	\$100	\$2,600
TOTAL COST TO CASING POINT		\$52,300	\$2,500	\$54,800
PLUG & ABANDONMENT		\$2,000		\$2,000
TOTAL COST IF DRY HOLE		\$54,300	\$2,500	\$56,800
8-02	COMPLETION UNIT 2 days @ \$2100/day	\$4,200		\$4,200
8-03	CONTRACT LABOR Flowback Supervisor	\$700		\$700
8-03	INSTALLATION OF SERVICE EQUIPMENT			\$0
8-04	TRUCKING	\$1,500		\$1,500
8-05	FILL PITS & DRESS LOCATION	\$1,500		\$1,500
8-06	CHEMICAL PRODUCTS			\$0
8-06	WATER TRANSPORTS	\$2,000		\$2,000
8-07	CASED HOLE WIRELINE SERVICES	\$3,000		\$3,000
8-09	CEMENT & CEMENTING SERVICES	\$4,000		\$4,000
8-11	CASING CREWS, TOOLS & TONGS	\$1,000		\$1,000
8-11	RENTAL TOOLS & EQUIPMENT Air Foam Unit / Frac Valve	\$3,000		\$3,000
8-15	FRAC PIT / LINER			\$0
8-15	FRAC TANK RENTALS	\$500		\$500
8-15	PUMP TRUCKS & SERVICES	\$400		\$400
8-15	STIMULATION SERVICES Acidize & Foam Frac	\$40,000		\$40,000
8-16	ENGINEERING / SUPERVISION 5 days @ \$500/day	\$2,500		\$2,500
8-18	FISHING TOOLS & SERVICES			\$0
8-18	LEGAL WORK			\$0
8-18	PLUG & ABANDONMENT			\$0
8-21	OVERHEAD 5 days @ \$300/day	\$1,500		\$1,500
9-01	PRODUCTION CASING / LINER 4-1/2" @ 2050'		\$6,100	\$6,100
9-02	TUBING 2-3/8" @ 2000'		\$4,400	\$4,400
9-03	TUBINGHEAD / X-MAS TREE		\$2,000	\$2,000
9-04	ARTIFICIAL LIFT EQUIPMENT			\$0
9-04	SUBSURFACE EQUIPMENT / SALVABLE			\$0
9-05	SEPARATION EQUIPMENT / GAUGES Compressor		\$10,000	\$10,000
9-05	TANKS / WALKS / STAIRWAYS		\$4,000	\$4,000
9-09	FLOWLINES & FITTINGS			\$0
9-10	NON-CONT. TANG. EQUIP. COMPL. EFM/Auto/Noise Walls		\$17,000	\$17,000
CONTINGENCIES 5%		\$3,300	\$2,200	\$5,500
TOTAL COST TO COMPLETE & EQUIP		\$69,100	\$45,700	\$114,800
TOTAL WELL COST 1/15 12-17-99		\$121,400	\$48,200	\$169,600

OPERATOR
COMPANY
COMPANY
COMPANY
COMPANY
COMPANY

BY St. Balco WI %
BY WI %
BY WI %
BY WI %
BY WI %
BY WI %

DATE 12/17/99
DATE
DATE
DATE
DATE
DATE



Cross Timbers Oil Company

April 10, 2000


Working Interest Owners
(see attached list)

RE: New Well Proposal
Trujillo Gas Com #1R
SW/4 Section 21-29N-10W
San Juan County, New Mexico

Gentlemen:

On March 20, 2000, Cross Timbers Oil Company sent you a proposal letter for the above captioned well. As of the date of this letter, I have not received a reply to our proposal. Cross Timbers is anxious to start this well as soon as possible. Your immediate attention to this proposal would be appreciated. Should you have any questions please feel free to contact me at (817) 885-2454.

Sincerely,
CROSS TIMBERS OIL COMPANY



George A. Cox, CPL
Landman

Enclosures

WORKING INTEREST OWNERS
TRUJILLO GAS COM #1R
SW/4 SECTION 21-29N-10W
SAN JUAN COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER:</u>	<u>WI %</u>
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R&W Company 8101 E. Dartmouth, Apt. 84 Denver, CO 80231	5.00%
Barbara M. Bramley Trust Dated April 16, 1982 7188 S. Poplar Lane Englewood, CO 80112	5.00%
Frederick L. Lilly and Gladys Lilly, his wife For their lifetime 2895 Brighton Road Shaker Heights, Ohio 44120	1.25%
Frederick L. Lilly, Jr., Remainderman 2895 Brighton Road Shaker Heights, Ohio 44120	0.00%
	<hr/>
	100.00%



Cross Timbers Oil Company

May 1, 2000


Working Interest Owners
(see attached list)

RE: New Well Proposal
Trujillo Gas Com #1R
SW/4 Section 21-29N-10W
San Juan County, New Mexico

Gentlemen:

On March 20, 2000 Cross Timbers Oil Company sent you a proposal letter for the above captioned well. A followup letter was sent to you on April 10, 2000. As of the date of this letter, I have not received a reply to our proposal. Cross Timbers is making preparations to drill this well and will be filing a Compulsory Pooling with the NMOCD in the near future for the parties that have not responded to either join or sell their interest. Your immediate attention to this proposal would be appreciated. Should you have any questions please feel free to contact me at (817) 885-2454.

Sincerely,
CROSS TIMBERS OIL COMPANY


George A. Cox, CPL
Landman

Enclosures

WORKING INTEREST OWNERS
TRUJILLO GAS COM #1R
SW/4 SECTION 21-29N-10W
SAN JUAN COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNER:</u>	<u>WI %</u>
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	<hr/>
	100.00%

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
911 S. 1st Street, Artesia, NM 88210-2834
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-101
Revised October 18, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 6 Copies
Fee Lease - 5 Copies

☐ AMENDED REPORT

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

¹ Operator name and Address Cross Timbers Operating Company 2700 Farmington Ave., Bldg. K. Ste 1 Farmington, NM 87401		² OGRID Number 167067
⁴ Property Code 22644	³ API Number 30-0 45-30071	⁶ Well No. 1R
⁵ Property Name Trujillo Gas Com		

⁷ Surface Location

UL or lot no.	Section	Township	Range	Lot. Idn	Feet from the	North/South Line	Feet from the	East/West line	County
K	21	29N	10W		1,835	South	1,910	West	San Juan

⁸ Proposed 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
⁹ Proposed Pool 1 Aztec Pictured Cliffs					¹⁰ Proposed Pool 2				

¹¹ Work Type Code N	¹² Well Type Code G	¹³ Cable/Rotary R	¹⁴ Lease Type Code P	¹⁵ Ground Level Elevation 5,570'
¹⁶ Multiple No	¹⁷ Proposed Depth 2,200'	¹⁸ Formation Pictured Cliffs	¹⁹ Contractor Not awarded	²⁰ Spud Date Est 01/00

²¹ Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
8-3/4"	7"	20#, J-55, STC	200'	85	Surface
6-1/4"	4-1/2"	10.5#, J-55, STC	2,200'	175	Surface

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary

Surface casing cement program: Approximately 85 sacks of Class "B" cement containing 2% CaCl₂ & 1/4 pps celloflake. Circulate cement to surface.

Production casing cement program: Approximately 175 sacks (est 415 cu ft) Class "E" cement containing 2% D-79, 2% CaCl₂ & 1/4 pps celloflake. Circulate cement to surface. Cement volume will be calculated from caliper log.

BOP program: 11" x 3,000 psig double ram BOP

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature: *Ray Martin* 12/2/99

Printed name: Ray Martin

Title: Operation Engineer

OIL CONSERVATION DIVISION

Approved by: *Charlie T. Lerrin*

Title: DEPUTY OIL & GAS INSPECTOR, DIST. #3

Approval Date: DEC - 6 1999 Expiration Date: DEC - 6

District I
PO Box 1980, Hobbs, NM 88241-1980

District II
PO Drawer 00, Artesia, NM 88211-0719

District III
1000 Rio Brazos Rd., Aztec, NM 87410

District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-100
Revised February 21, 1999
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

*API Number 30-045-30071		*Pool Code 71280	*Pool Name AZTEC PICTURED CLIFFS
*Property Code 22644	*Property Name TRUJILLO GAS COM		*Well Number 1R
*GRID No. 167067	*Operator Name CROSS TIMBERS OPERATING COMPANY		*Elevation 5570

10 Surface Location

UL or lot no.	Section	Township	Range	Lot Ion	Feet from the	North/South line	Feet from the	East/West line	County
K	21	29N	10W		1835	SOUTH	1910	WEST	SAN JUAN

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ion	Feet from the	North/South line	Feet from the	East/West line	County

12 Dedicated Acres 160	13 Joint or Infill N	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

2569.86' (MEAS)	2576.68' (MEAS)	17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. Signature Ray Martin Printed Name Ray Martin Production Engineer Title 12/2/99 Date
2635.51' (MEAS)	2645.18' (MEAS)	18 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. OCTOBER 21, 1999 Date of Survey Signature and Seal of Surveyor NEALE G. EDWARDS NEW MEXICO 6857 Certification No. 980827
2627.34' (MEAS)	2692.93' (MEAS)	

21

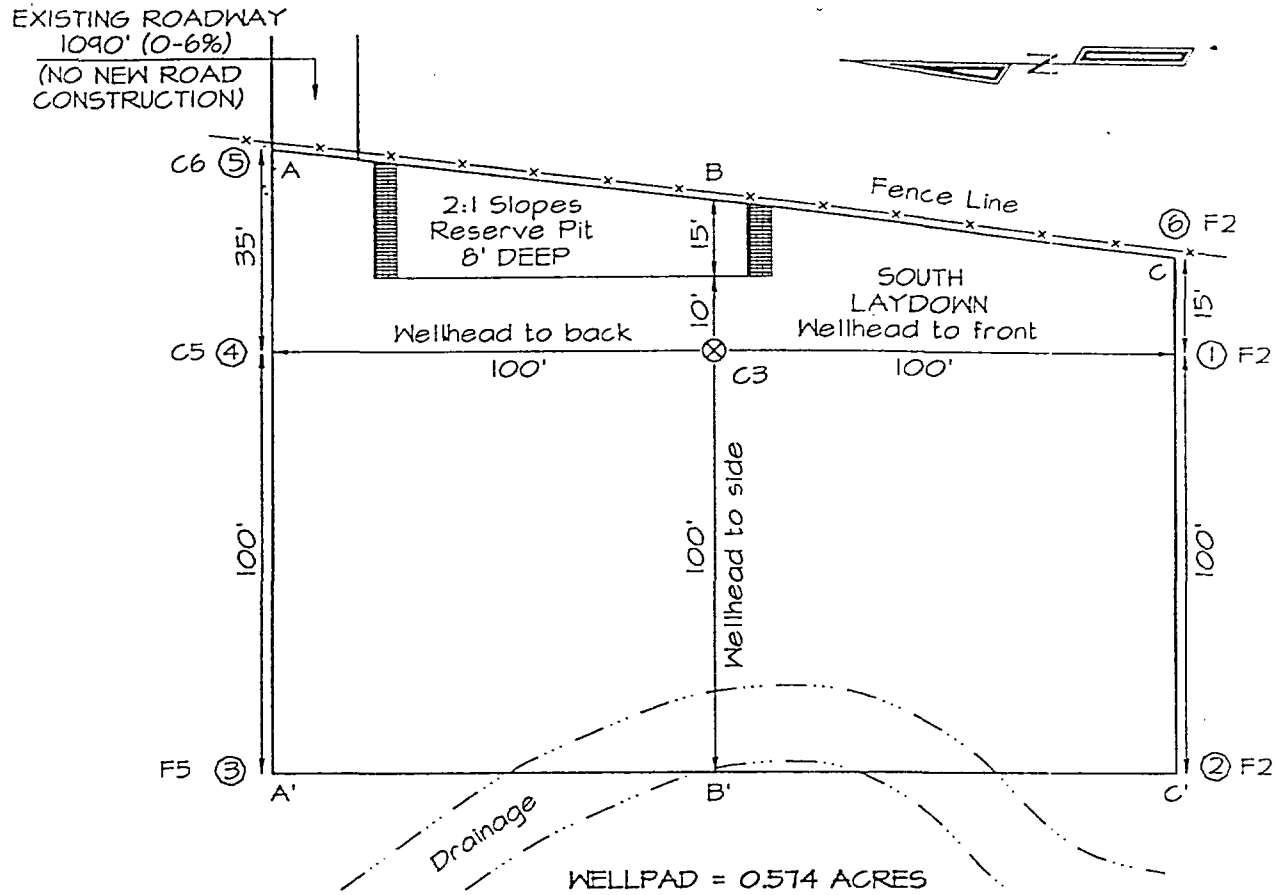
1910'

1835'

5140.00' (MEAS)

RECEIVED
DEC - 6 1999
OIL CON. DIV.
DIST. 3

CROSS TIMBERS OPERATING COMPANY TRUJILLO GAS COM #1R
1835' FSL & 1910' FWL, SECTION 21, T29N, R10W, NMPM, SAN JUAN COUNTY, NM
GROUND ELEVATION: 5570' DATE: OCTOBER 21, 1999



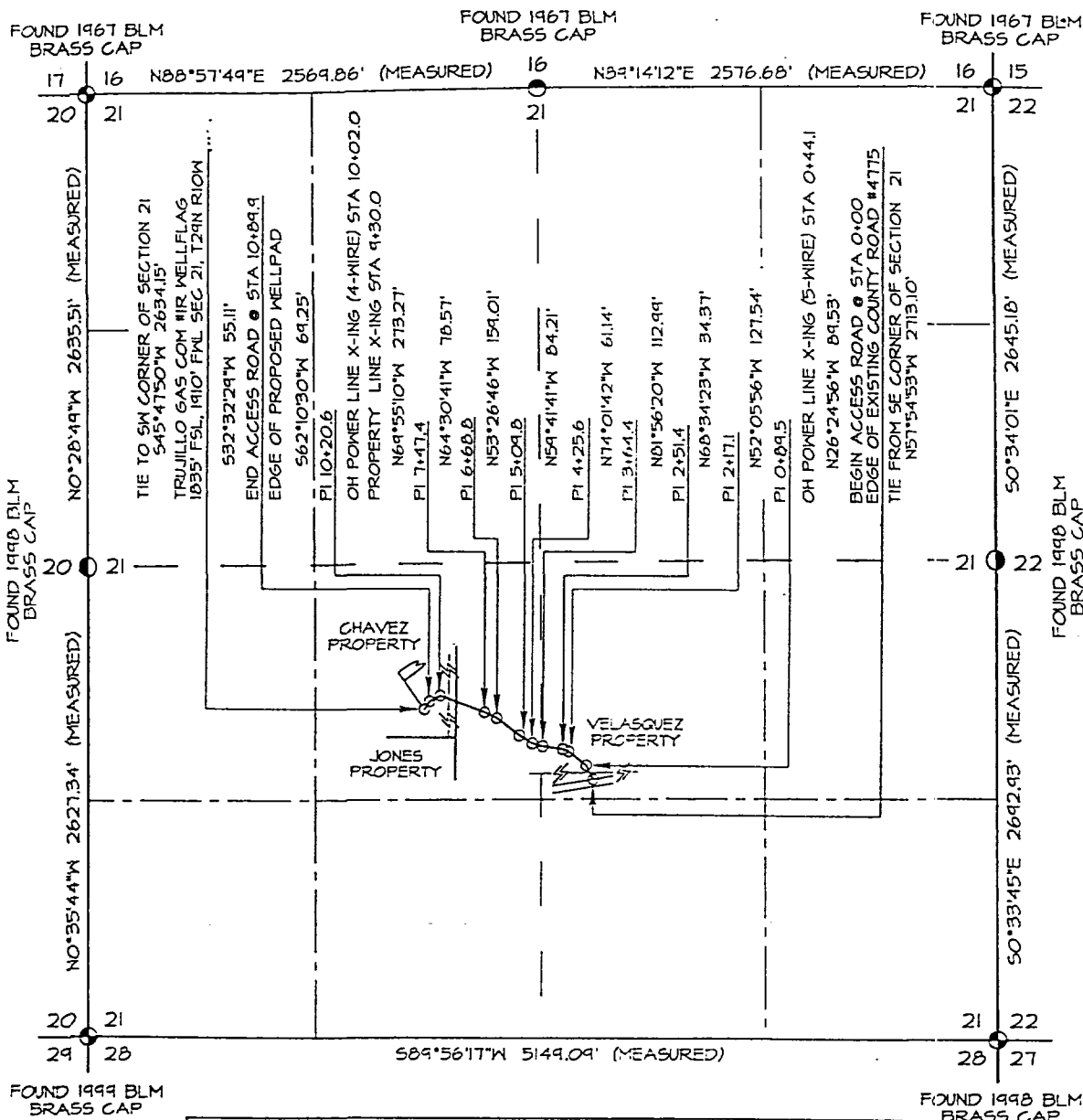
A-A'						
5577'						
5567'						
5557'						

B-B'						
5577'						
5567'						
5557'						

C-C'						
5577'						
5567'						
5557'						

**CROSS TIMBERS OPERATING COMPANY
TRUJILLO GAS COM #1R ACCESS ROAD SURVEY
NW/4 SE/4 & NE/4 SW/4 OF SECTION 21, T29N, R10W, N.M.P.M.
SAN JUAN COUNTY, NEW MEXICO**

GRAPHIC SCALE 1"=1000'



BASIS OF BEARING:

REAL-TIME KINEMATIC GPS SURVEY
SOLUTION OBTAINED FROM SATELLITES
TRACKED ON SEPTEMBER 14, 1999 FROM
A REFERENCE STATION POSITIONED IN
THE NW/4 SE/4 OF SECTION 16, T29N, R10W

OWNERSHIP		
Fee (Velasquez)	0+00.0 TO 9+30.0	930.0 FT / 56.4 RODS
Fee (Chavez)	9+30.0 TO 10+89.9	159.9 FT / 9.7 RODS



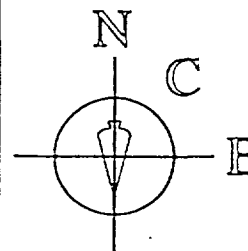
I Neale C. Edwards, a registered professional surveyor under the laws of the State of New Mexico, hereby certify that this plat was prepared from field notes of an actual survey meeting the minimum requirements of the standards for right-of-way surveys and is true and correct to the best of my knowledge and belief.

Neale C. Edwards

Date: 10-28-99

Prepared for:

CROSS TIMBERS OPERATING COMPANY
3000 N. GARFIELD SUITE 175
MIDLAND, TX 79705



Land Surveyor:
Neale C. Edwards

Mailing Address:
Post Office Box 6612
Farmington, NM 87499

Business Address:
111 East Pinon Street
Farmington, NM 87402
(505) 325-2654 (Office)
(505) 325-5650 (Fax)

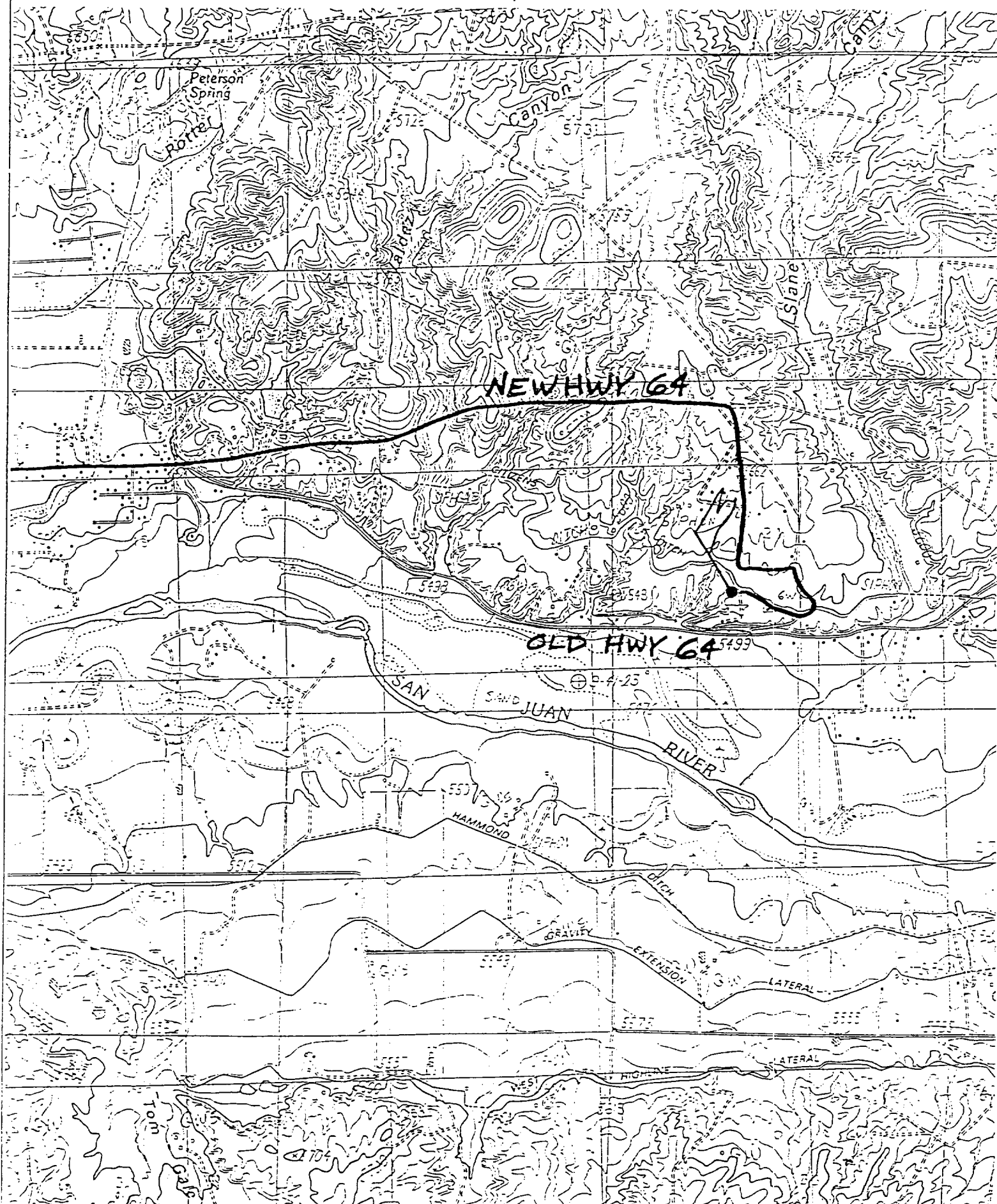
SURVEYS, INC.

DATE: 10-28-99
BY: [Signature]
CHECKED: [Signature]
TITLE: [Signature]

CROSS TIMBERS OPERATING COMPANY TRUJILLO GAS COM #1R

1835' FSL & 1910' FWL, SECTION 21, T29N, R10W, N.M.P.M.

SAN JUAN COUNTY, NEW MEXICO





NEW MEXICO ENERGY, MINERALS & NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
AZTEC DISTRICT OFFICE
1000 RIO BRAZOS ROAD
AZTEC NM 87410
(505) 334-6178 FAX: (505) 334-6170
[http://nemr.nd.state.nm.us/ocd/District IIV3/district.htm](http://nemr.nd.state.nm.us/ocd/District%20IIV3/district.htm)

GARY E. JOHNSON
GOVERNOR

Jennifer A. Salisbury
CABINET SECRETARY

SAN JUAN BASIN OCD CASING CEMENTING POLICY

1. Cement must be circulated around surface pipe. If cement cannot be circulated, the top of the cement column shall be determined by temperature survey or other method approved by the Aztec OCD Office.
2. All subsequent casing strings shall be cemented a minimum of 100' into the next shallower string. If cement is not circulated on any string, the cement top shall be determined by temperature survey, CBL, or other method approved by the Aztec OCD Office.
3. Minimum surface pipe requirements:

<u>Well Depth</u>	<u>Surface Pipe</u>
0-3000	120'
3001-5000	200'
5001-8000	320'
8001 +	Consult with District Office

Wells drilled in valley fill areas must have surface pipe set at least 50' below the fill.

Minimum requirements may be modified as necessary to comply with Rule 106 and Rule 107. Special pool rules may apply.

Proposed casing plans may be modified by the Aztec District Office to address special conditions.

No C-104 will be approved for a well until all pressure tests and cement tops are reported in compliance with Rule 1103B.(2)

DRILL CUTTINGS SAMPLES

A representative of the US Geological Survey has informed the Aztec OCD Office that they have enough samples from the Fruitland formation to establish a basin-wide map for vitrinite reflectance. However, they do not have enough from the Menefee Coal interval of the Mesaverde formation.

As a condition of approval to drill, you are required to submit four 4" X 6" sample bags of drill cuttings from the Menefee Coal interval if it is penetrated and drilling conditions permit. If a geologist is used, a copy of that recording from 50' above to 50' below the coal intervals will be submitted. The following information will be included: Operator Name, Well Name and Number, Footage Location, Section, Township and Range, Date Taken, Name & Address of your Company Recipient of the Analysis Copy

Submit samples, information and geologist to the following address:

Mr Vito Nuccio
US Geological Survey
PO Box 25046 MS 939 DFC
Lakewood CO 80225

These samples will be analyzed for vitrinite reflectance values and added to a data base available from the USGS in periodic reports.

This information will be used to evaluate coals and coal gas potentials in the San Juan Basin.

THE FLARING OF OIL & GAS DURING WELL CLEANUP AND BEFORE PRODUCTION

Recent field inspections by the Aztec OCD Office reveal that many new wells are being flared directly to pits, resulting in the loss of a substantial amount of oil and, sometimes, spraying out of the pit onto the ground and vegetation.

To prevent waste and protect the environment, all flowback of new wells capable of producing liquid hydrocarbons will be restricted to the use of separation equipment and the flowback of oil to storage tanks where reasonably possible. After initial flowback has been achieved and the well has cleaned up sufficiently, the use of separators and tanks will be required.

On the initial flowback, swirls, diverters or other acceptable devices will be required on all blowdown lines to assure that oil does not splash out of the pit.



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
AZTEC DISTRICT OFFICE
1000 RIO BRAZOS ROAD
AZTEC, NEW MEXICO 87410
(505) 334-6176 Fax (505) 334-6170

GARY E. JOHNSON
GOVERNOR

JENNIFER A. SALISBURY
CABINET SECRETARY

APPROVAL OF STATE/FEE APPLICATIONS

The attached application has been approved with the following conditions:

1. Trash is to be taken to a sanitary landfill, not buried at the wellsite, unless approved by the landowner.
2. Wells which produce oil during cleanups and testing will be flowed through a separator and the oil recovered in a tank.
3. Cement quantities will be reported in cubic feet on all reports, with a description of cement type, additives, different slurries used and calculated yields.
4. Casing and cementing reports must show a water shutoff test, as required by Rule #107(C).
5. Reports of commencement of drilling operations must be filed within 10 days of spud, as required by Rule #1103.
6. It is the responsibility of the operator to make the appropriate contracts and arrangements with surface owners before commencing activities.

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 20 , 20 00 ,

OPERATOR Cross Timbers Operating Company

CONTRACT AREA SW/4 Section 21-T29N-R10W, as to the Pictured Cliffs formation

COUNTY OR PARISH OF San Juan STATE OF New Mexico

COPYRIGHT 1982 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD, FORT
WORTH, TEXAS 76137-2791, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Cross Timbers Operating Company 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 party 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.~~

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

**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 one-eighth (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.

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~~ ^{after the date herof} 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 ^{a majority of} 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.

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 interest; 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 / 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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

CROSS TIMBERS OPERATING COMPANY 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.

C. Employees:

The number of employees / ^{or contractors} 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 / ^{or contractors} shall be the employees / ^{or contractors} 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.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31st day of December, 2000 Operator shall commence the drilling of a well for oil and gas at the following location:

SW/4 Section 21-29N-10W, San Juan County, New Mexico

and shall thereafter continue the drilling / ^{or recompletion} of the well with due diligence to a depth of approximately 2,050' or a depth sufficient to test the Pictured Cliffs formations, whichever is the 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.

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.

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 ~~well producing in paying quantities or a~~ ^{well producing in paying quantities or a} dry hole drilled ~~at the joint expense of all parties / or a well jointly owned by all the parties /~~ ^{on the contract area} 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) hours, exclusive 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) 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) 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 ^{all} ~~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, ^{exclusive} ~~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) hours ^{exclusive} ~~(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.

*** or (c) carry its proportionate part (determined as provided in (b)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take.. Any interest of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal.**

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.

Article VI
continued

1 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, /~~ ^{* windfall profit 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:

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8 * applicable ad valorem taxes, production taxes, severance taxes, excise taxes and gathering fees
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11 (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
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19 (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.
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26 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.
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36 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, ^{windfall profit taxes,} 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.
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43 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.
47

48
49 ^{successful}
50 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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64 Notwithstanding any provision to the contrary in this or any other agreement, a non-consenting party, upon notice in writing to Operator and/or any party carrying all or part of the non-consenting interest, shall have the right at all times and from time to time for any calendar year within the twenty-four (24) month period following the end of such calendar year to audit Operator's and/or carrying party's accounts and records relating to or connected with its operations on the Contract Area, regardless of when such operations were conducted.
66

Article VI
continued

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 call "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 / ^{remaining in the hole} 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.

* and salvable surface equipment used in connection with such sidetracked well

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 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 the 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

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 ~~reasonably obtainable under the circumstances~~ / 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~~ ^{upon thirty days written notice} 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.

Notwithstanding any provision to the contrary in this or any other agreement, each party shall have the right at all times and from time to time, upon written notice, to audit all of taking party and/or operator's records and accounts related to or in connection with production or allocation of production from the contract area. Auditing of settlement records shall also be applicable if taking party and/or operator distributes proceeds to auditing 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.

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"~~ ^{by a reasonable appraisal of its current fair market value}, 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

* (failure of any party to respond within the said thirty (30) day period shall be deemed consent to the proposed abandonment.)

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

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

3
4 ☐ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 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,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
15 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
16 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
17 and/or surface facilities.

18
19 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
20 to require an expenditure in excess of Twenty-Five thousand Dollars (\$ 25,000.00) except in connection with a well, the drilling, reworking, deepening,
21 completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement;
22 provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature,
23 Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency
24 to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties.
25 ~~If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting~~
26 ~~an information copy thereof for any single project costing in excess of _____~~
27 ~~Dollars (\$ _____) but less than the amount first set forth above in this paragraph.~~

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

29
30 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
31 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 con-
32 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
33 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
34 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
35 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
36 visions of Article IV.B.2.

37 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
38 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
39 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
40 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
41 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

42
43 **F. Taxes:**

44
45 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
46 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
47 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
48 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
49 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
50 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
51 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
52 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
53 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
54 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
55 the manner provided in Exhibit "C".

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

62
63 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
64 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

Article VII
continued1 **G. Insurance:**

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 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
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
10 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.
11

12 **ARTICLE VIII.**
13 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

14
15 **A. Surrender of Leases:**

16
17 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
18 or in part unless all parties consent thereto.

19
20 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
21 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
22 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
23 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
24 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
25 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
26 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
27 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
28 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
29 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
30 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
31 ed acreage. The value of all material shall be determined ~~by a reasonable appraisal of its current Fair Market Value~~ ~~in accordance with the provisions of Exhibit "C"~~, less the estimated cost of
32 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
33 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

38 **B. Renewal or Extension of Leases:**

39
40 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
41 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
42 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
43 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
44 interests held at that time by the parties in the Contract Area.

45
46 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
47 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
48 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
49 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

50
51 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
52 by the acquiring party.

53
54 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
55 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
56 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
57 tracted 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
58 the provisions of this agreement.

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

60
61 **C. Acreage or Cash Contributions:**

62
63 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
64 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
65 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 con-
tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

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 provision 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 Interests:

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 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, 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, Subtitle "A", of the Internal Revenue Code of 1986, 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 Ten Thousand and No/100 Dollars (\$ 10,000.00) 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 suspending 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

A. Failure of any party to execute this agreement shall not render it ineffective as to any party which does execute the same. If counterparts to this agreement are executed, the signatures and acknowledgments of the parties, as affixed thereto, may be combined by Operator in and treated and given effect for all purposes as a single instrument. This agreement also may be ratified by separate instrument referring hereto, each of which shall have the effect of the original agreement and of adopting by reference all of the provisions herein contained.

B. Notwithstanding anything to the contrary contained in Article VII.B., each party (contributing party) contributing a lease or leases (original lease) to this agreement shall have the option, but not the obligation, at any time prior to and for sixty (60) days after the expiration of the original lease to renew such lease and to alone bear the cost and expense thereof and thereby maintain its right, title and interest in the tract or tracts included in the original lease and the renewal thereof. If more than one party owns an interest in the original lease, the option granted herein shall inure to the benefit of such parties jointly and severally. If any party hereto other than the contributing party (renewing party) renews the lease at any time, the renewing party shall furnish the contributing party an itemized statement of the total cost and expense incurred in acquiring such renewal lease. The contributing party shall have sixty (60) days after the receipt of such itemized statement to reimburse the renewing party in full. If the contributing party makes such reimbursement, it shall receive from the renewing party an assignment, subject to this agreement, of all right, title and interest in and to the renewal lease. If the contributing party either renews such lease at its expense, or fully reimburses the renewing party, the parties' interest hereunder in the Contract Area shall remain unchanged. If the contributing party exercises neither of the options provided above it shall thereby forfeit its right under this Article XV.D., as to such renewal lease and the renewal lease shall thereafter be subject to all the terms and conditions of Article VII.B hereof. This Article XV.D. shall apply in like manner to extensions of lease.

C. This Operating Agreement shall supersede and replace any previous Operating Agreements governing the depths covered in the Contract Area shown on Exhibit "A".

D. The second sentence of Article V.B.1 is hereby amended to read as follows: If the Operator terminates its legal existence, or if neither Cross Timbers Oil Company, nor any affiliate of Cross Timbers Oil Company, owns an interest hereunder in the Contract Area, or if Operator 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. "Affiliate" for such purposes includes any entity which controls, is controlled by or is under common control with Cross Timbers Oil Company, or which succeeds to the interest of Cross Timbers Oil Company, in the Contract Area as a result of merger, reorganization or consolidation.

Article XV Continued

E. With respect to a well drilled or deepened pursuant to Article VI.B.2. for which the Consenting Parties have not been fully reimbursed for the amounts provided in Article VI.B. ("Non-Consent Well"), the right to propose and to participate in further operations under Article VI.B. for such Non-Consent Well shall be limited as follows:

- (a) Only a party which participated in the Non-Consent Well shall have the right to propose a reworking, plugging back or completion operation for such Non-Consent Well, and only those parties which elected to participate in such Non-Consent Well shall be entitled to receive such notice and to participate in such operation pursuant to Article VI.B.
- (b) Only a party which participated in the Non-Consent Well shall have the right to propose a deepening or sidetracking operation for such Well, but all parties (including parties which did not participate in such Well) shall be entitled to receive notice and shall have the right to participate pursuant to Article VI.B. in such sidetracking or deepening operation except as to a well covered by Article XV, paragraph 7 hereof. However, those parties which did not participate in the Non-Consent Well shall reimburse the Consenting Parties the unrecouped portion of the amount allowed by Article VI.B. to be recouped with respect to such Non-Consent Well.

F. If any party is required under this agreement to assign or relinquish to any other party or parties all or a portion of its working interest or production attributable thereto, the interest or production so assigned or relinquished shall be free and clear, not only of "subsequently created interests" as defined in Article III.D., but also of all mortgages, liens or other similar burdens placed thereon by the assigning party or resulting from its ownership and operation of such lease or interest on and after the date of this agreement, but otherwise without warranty of title, express or implied, except against those parties claiming by, through and under but not otherwise and assignee shall have the right of subrogation as to any warranties to which it may be entitled.

G. Each party hereto covenants and agrees for itself, its successors and assigns, that any sale, assignment, sublease, mortgage, pledge or other instrument affecting the leases and lands subject to this instrument (whether of an operating or non-operating interest or a mortgage, pledge or other security interest) will be made and accepted subject to this instrument and the party acquiring the interest or security shall expressly agree to be bound by all its terms and provisions. Any party hereto who executes any instrument in favor of any party without complying with the provisions of this paragraph shall indemnify, defend and hold the other parties hereto harmless from and against any and all claims or causes of action by any person whomsoever and for any expenses and losses sustained as a result of the failure of such party to comply with these provisions.

The parties agree that the sale of any interest in the leases covered by this agreement shall be made specifically subject to the provisions of this section.

H. The lien and security interest granted by each Non-Operator to Operator and by Operator to the Non-Operator under Article VII.B. shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted and equipment (as mentioned in said Article) but also to all accounts, contract rights, inventory and general intangibles constituting a part of, relating or arising out of said oil and gas rights, extracted oil and gas and said equipment or which are otherwise owned or held by any such party in the Contract Area. Further, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII.B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the lien and security interest provided herein, may file this Operating

agreement as a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform Commercial Code. Further, and not in limitation of the foregoing, each party hereby grants to Operator full right, power and authority to execute in each such party's name and on its behalf any financing statement which Operator deems necessary in order to perfect the security interest hereby granted under the applicable Uniform Commercial Code.

I. If, following the granting of relief under the 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. 365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within 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 an 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 other parties.

J. In the event Operator shall ever be required to bring legal proceedings in order to collect any sums due from any non-operators under this Agreement, then Operator 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.

K. 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.

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 20th day of March, 2000.

Edwin S. Ryan, Jr., who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alternations, or modifications, other than those in Articles shown in "Bold" print, have been made to the form.

OPERATOR

CROSS TIMBERS OPERATING COMPANY

CROSS TIMBERS OIL COMPANY

Edwin S. Ryan, Jr.
Edwin S. Ryan, Jr., Vice President - Land

Edwin S. Ryan, Jr.
Edwin S. Ryan, Jr., Vice President - Land

NON-OPERATORS

S.G. METHANE COMPANY, INC.

By: _____

Date: _____

R & W COMPANY

By: _____

Date: _____

BARBARA M. BRAMLEY TRUST, dated April 16, 1982

By: _____

Date: _____

Frederick L. Lilly

Date: _____

Frederick L. Lilly, Jr.

Date: _____

Gladys Lilly

Date: _____

EXHIBIT "A"
(Revised 6-1-00)

Attached to and made a part of that certain Operating Agreement dated March 20, 2000, by and between Cross Timbers Operating Company, as Operator and S.G. Methane Company, Inc., as Non-Operator.

I. LANDS SUBJECT TO THIS AGREEMENT:

Township 29 North, 10 West, N.M.P.M.
Section 21: SW/4, as to the Pictured Cliffs formation.

II. RESTRICTIONS AS TO DEPTH OR FORMATION:

Limited to Pictured Cliffs formation.

III. ADDRESSES AND PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES TO THIS AGREEMENT:

OPERATOR:

WI:

Cross Timbers Oil Company	85.00%
Cross Timbers Operating Company	
810 Houston St., Suite 2000	
Fort Worth, Texas 76102-6298	
817/870-2800	
fax 817/885-2224	

NON-OPERATORS:

S.G. Methane Company, Inc.	13.75%
1331 Lamar, Suite 501	
Houston, Texas 77010	
ATTN: Robby Gwinn	

Frederick L. Lilly and Gladys Lilly,	1.25%
for their lifetime	
2895 Brighton Road	
Shaker Heights, Ohio 44120	

Frederick L. Lilly, Jr., Remainderman	0.00%
2895 Brighton Road	
Shaker Heights, Ohio 44120	

100.00%

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated March 20, 2000, by and between Cross Timbers Operating Company, as Operator, and S.G. Methane Company, Inc., 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, New Mexico to-wit:

and containing _____ acres, more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term on 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, _____ 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 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, _____ 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 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.

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated March 20, 2000, by and between Cross Timbers Operating Company, as Operator, and S.G. Methane Company, Inc., 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 Bank of America, Fort Worth, Texas 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.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the 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 or 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 Paragraphs 3A and 3B of this Section II.

4. Employee Benefits

Operator's current costs or 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 twelve percent (12%) 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 judgments 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 annual 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.

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 SEE SCHEDULE I ATTACHED HERETO AND MADE A PART
() Percentage Basis, Paragraph 1b HEREOF

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:

- (X) shall be covered by the overhead rates, or
() 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 \$ 5,750.00
(Prorated for less than a full month)

Producing Well Rate \$ 575.00

(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 \$ 25,000.00 :

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. 2 % 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. 2 % 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:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 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 2 3/8 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 3/4 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 3/4 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 3/4 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.

SCHEDULE I

The Combined Fixed Rates, as heretofore provided under Section III, Paragraph A. of the COPAS Accounting Procedure to which this schedule is attached, shall be in lieu of all charges to the Joint Account for the indirect costs and expenses incurred by Operator in providing the joint operations with the producing and development functions and services hereinafter identified as Compensation for Administrative, Supervision, Office Services and Warehousing costs.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's District Expense and Warehousing, and should serve as a guide for similar functions intended to be covered by the Combined Fixed Rates even though some of the functions may be contract services performed by third parties.

Salaries, Benefits and Related Costs of Field, Area and/or District:

Managers and/or Superintendents

Foreman - Superintendent

Drilling: (Except when permitted as a direct charge under Para. 1.ii, Sec. III)

Production: (Except when permitted as a direct charge under Para. 1.ii, Sec. III)

Construction: (Except when permitted as a direct charge under Para. 1.ii, Sec. III)

Production Engineers: (Except when permitted as a direct charge under Para. 1.ii, Sec. III)

Production Geologists: (Except when permitted as a direct charge under Para. 1.ii, Sec. III)

Other Technical Employees: (Except when permitted as a direct charge under Para. 1.ii, Sec. III)

Office Stenographers

Office Clerks

Time Keeping

Preparation of Boat, Automotive and Other Vehicle Reports

Local Purchasing (Field Orders)

Preparation and Coding of Invoices

Preparation of Material Requisitions

Preparation of Field Transfers

Preparation of Field Receiving Reports

Posting of Production Reports

Preparation of Over and Short Reports

Reading and Integration of Charts

Preparation of Field Gas Production and Consumption Report

Preparation of Field Office Reports to State and Federal Regulatory Bodies

Miscellaneous Routine Field Office Clerical Duties

Field Office Inventory Men

Conducting Physical Inventories

Preparation of Field Inventory Records

Office Equipment, Supplies, Stationery and Forms

Maps, Photostats and Blueprints, when required for general District Use.

Rentals

Rentals paid for buildings, office and storage space used by District employees.

Rentals paid in connection with sites for District production offices, camps, warehouses and other facilities used specifically for District purposes.

Ad Valorem Taxes

Taxes paid on buildings and equipment charged to Operator's Field, Area, and/or District investment accounts.

Insurance

Net cost of all types of insurance, including workmen's compensation and public liability insurance; when such insurance is applicable to District.

The following reflects a representative abridged listing of the functions and/or services which shall be considered as included in the Operator's Administrative Overhead, and should serve as a guide for similar functions intended to be covered by the combined Fixed Rates even though some of the functions may be contract services performed by third parties.

General Management

General Operating Administration

- Drilling Managers and/or Superintendents and Office Staffs
- Production Managers and/or Superintendents and Office Staffs
- Civil Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Reservoir Analysis and Engineering
- Petroleum Engineers - (Except when permitted as a direct charge under Para. 1.ii, Sec. III)
- Negotiation of Production and Residue Gas Sales
- Negotiation of Major Gas Sales
- Preparation and Negotiation of Joint Operation Agreements
- Preparation of General Production Records
- Traveling and Transportation Expense of Home, Division, Area, Region, or similar Administrative Office Employees

General Accounting and Services

- Checking of invoices
- Preparation of Paychecks
- Responsibility of Account Distribution or Coding
- Payment of Vendor's Invoices
- Maintaining Property Investment Records
- Preparation of Joint Interest Billing
- Preparation of Royalty Checks
- Machine Accounting and Data Processing Functions
- Photostat and Other Reproduction Service
- Ad Valorem Tax Service and/or Counsel
- Systems and Procedures
- Internal Auditing

Communications Expense - Telephone, telegraph and teletype service rendered to the district; also operating expenses of radio communication systems which serve the district and which are not chargeable to any particular lease or facility operation. The costs applicable to communication service and/or equipment directly employed on and serving the joint property shall be direct charge to the joint property.

Area and/or District Office Utility Services

Local Field, Area and/or District Recreation Facilities

Safety Meetings and/or Dinners

Area and/or District Office Safety Equipment

First Aid Supplies

Physical and Medical Examinations - Cost of pre-employment and medical examinations of personnel to be employed in the district, including costs of annual or periodic examinations and immunizations.

Transportation, including freight and express costs when such costs are incurred directly in the operation and/or maintenance of district offices, buildings and facilities.

Traveling Expense of district employees when such expense is for the sole benefit of the district. Traveling and personal expenses of district employees attending oil show, API meetings, and company training schools, etc., which are for the primary benefit of the Operator shall be borne solely by the Operator.

Moving Expenses - Costs of moving and transfer of district employees including relocation expenses such as real estate fees, closing cost, compensation for loss on sale of home, carpeting and draperies, etc., when transferred within or into the district. Costs incurred for the primary benefit of the Operator, such as transfer of trainees, shall be borne solely by the Operator.

Memberships, Dues and Subscriptions for Field, Area and/or District Personnel.

Depreciation on Operator's wholly owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips etc., used for District purposes.

Repair and Maintenance on Operator's wholly owned Field, Area, and/or District production offices, equipment, buildings, camps, roads, fences, canals, docks, marine terminals, and slips, etc. including the cost of small tools and supplies used specifically for District purposes.

Warehouse - wholly owned

Depreciation

Operating and Maintenance Expense

Cost of Storing and Handling Material

Title Record and Division Order Administration

Landman and Titlemen

Maintenance of Division of Interest Records

Obtaining Royalty Signatures

Exploration Administration

Geologist - (Except when permitted as a direct charge under Para. I.ii, Sec. III)

General Research

Geophysicists

General Purchasing Administration

Industrial and Public Relation Administration

Employee Relation Counselor

Safety Engineer

Industrial Nurse and/or Doctor

Dinners, Parties, etc.

Safety Awards

Incentive Awards

Thanksgiving Turkeys or Christmas Baskets

Contributions to Charity and/or Civic Organizations

Special Investigators

Administration of Benefit Plans

General Oil and Gas Well Proration and Pricing Administration

Preparation of Reports to and Representation before Governmental Agencies

General Legal Counsel (Operator's Legal Staff)

Preparation of Contracts

Claims and Litigation

Title and Other Opinions

Transportation and Traffic Administration

Insurance Administration

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated March 20, 2000, by and between Cross Timbers Operating Company, as Operator and S.G. Methane Company, Inc., as Non-Operator.

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- (a) Workers' Compensation Insurance in compliance with the worker's compensation laws of the state in which the operation is being performed.
- (b) Employers Liability Insurance on bodily injury of not less than \$500,000 for accidental injuries per accident and \$500,000 each employee for bodily injury by disease subject to a \$500,000 policy limit for bodily injury by disease.
- (c) Comprehensive General Liability Insurance with a single combined limit of \$1,000,000 for each occurrence for bodily injury and property damage.
- (d) Automobile Public Liability and Property Damage Insurance with a single combined limit of \$1,000,000 each occurrence for bodily injury and property damage.

The Operator shall require its contractors and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the worker's compensation laws of the state in which the operation is being performed and to carry such other insurance and in such amounts as the Operator shall deem necessary.

EXHIBIT "E"
GAS BALANCING AGREEMENT
ONSHORE

Attached to and made a part of that certain Operating Agreement dated March 20, 2000, by and between Cross Timbers Operating Company, as Operator, and S.G. Methane Company, Inc., as Non-Operator.

THIS GAS BALANCING AGREEMENT is entered into by the parties who own and are entitled to share in the oil and gas production from the Contract Area covered by the Operating Agreement described below.

There may be periods when one (or more) of the parties has no market for, or its purchaser is unable to take, or for some other reason it does not dispose of its interest, or a portion thereof, in the gas production. Therefore, to permit each party to produce and dispose of its interest in the gas production from the Contract Area with as much flexibility as possible, to provide an equitable method of balancing accounts and to discourage undue seasonal marketing manipulations, the parties hereto agree to this Gas Balancing Agreement as hereinafter set forth:

1. For the purposes of this Agreement, the following terms shall be defined as hereinafter set out:
 - (a) "Operating Agreement" means the Operating Agreement dated March 20, 2000 and executed by the parties or their predecessors.
 - (b) "Gas" shall mean natural gas or oil well gas obtained from primary field separation.
 - (c) "Liquid Hydrocarbons" are those liquids obtained from primary field separation.
 - (d) "Percentage Ownership" is the percentage interest of each party as set forth in the Operating Agreement.
 - (e) "Over-produced Party" is a party who has utilized or sold a greater volume of gas at any given time (individually or through its gas purchaser) than the party's Percentage Ownership of the total cumulative volume of gas produced and utilized or sold.
 - (f) "Under-produced Party" is a party who has utilized or sold a lesser volume of gas at any given time (individually or through its gas purchaser) than the party's Percentage Ownership of the total cumulative volume of gas produced and utilized or sold.
2.
 - (a) If fewer than all the parties are producing gas, the parties so producing shall have the right and option, but not the obligation, to produce and dispose of all or any part of such gas that may be produced. The parties hereto shall share in and own the liquid hydrocarbons, as produced, in accordance with their respective interests, as set forth in and subject to the terms of the Operating Agreement. The gas attributable to the interest of each non-producing party shall remain in the reservoir for production at a later date.
 - (b) Each Under-produced Party shall, upon commencing the sale of gas, have the right to take a greater percentage of the current gas production than such Under-produced Party's Percentage Ownership, subject to the following limitations:
 - (1) For the purposes of balancing gas production accounts, as soon as practical, any Over-produced Party or Parties will make available to any Under-produced Party or Parties a portion of the Over-produced Party's or Parties' share of gas production, but Over-produced Parties shall not be liable to Under-produced Parties under this paragraph except as provided in Section 3 hereof. In no event will any Over-produced Party be required to reduce the volume of gas which it is entitled to take from the Unit Area during any calendar month to less than 50% of such Over-produced Party's Percentage Ownership in the gas produced; provided, however, during a winter peak season (November through March) an Over-produced Party shall not be required to reduce the volume it is entitled to take from the Unit Area to less than 75% of such Over-produced Party's Percentage Ownership in the gas produced. If at any time more than one Under-produced Party is taking in excess of its gas production account, then each such Under-produced Party shall be entitled to a share of the gas production made available by the Over-produced Parties in the ratio that the Percentage Ownership of each Under-produced Party bears to the total Percentage Ownership of all Under-produced Parties currently taking gas.

- (2) For the purposes of balancing production accounts as provided in Section 3 hereof, the Under-produced Party, to the extent it is taking gas in excess of that attributable to its Percentage Ownership, shall be deemed to be recovering volumes of gas offsetting prior over production by the Over-produced Party on a last-in, first-out basis. (Last over-production volume is offset by First Makeup volume).
 - (3) Each party's gas production account is in balance when such party has utilized or sold the same percentage of the total cumulative production from joint wells in a reservoir as such party's Percentage Ownership.
 - (4) It is contemplated that some of the parties may arrange to have their gas processed in a gas processing plant for the recovery of liquefiable hydrocarbons. This Agreement does provide a basis for balancing any liquefiable hydrocarbons recovered from a gas processing plant.
3. When production from a proration unit permanently ceases, there shall be an accounting between the parties hereto so that any Under-produced Party shall receive a sum of money equal to the lesser of: (1) the Under-produced Party's contract price if contracted for or (2) the amount actually received, (including processed liquid proceeds), less applicable taxes, royalty and costs, such as processing, dehydration, compression and transportation, if not participated in by the Under-produced Party, by any Over-produced Party from the sale or utilization by it of that part of the total cumulative volumes of gas produced from the proration unit to which any Under-produced Party was entitled. If a portion of a Party's gas is taken for its own use and a portion thereof is sold, the gas value will be based on the price received simultaneously by such Party for gas being sold from the proration unit. During periods in which a party is taking all of its gas for its own use, any gas so taken will be valued at the maximum price which such party could have received for such gas if actually delivered under such party's contract, or if not, the weighted average price received simultaneously by all parties for gas sold from the proration unit. All Over-produced Parties shall maintain adequate records of prices and volumes of over production and provide same to Under-produced Parties at the time of settlement when production permanently ceases.
4. During the term hereof, each party selling gas from a proration unit in any month will furnish or cause to be furnished to each of the other Parties a statement showing the volume utilized and sold. The Operator shall furnish monthly to each party a statement showing the status of the over and short accounts of all parties.
5. Each Party taking gas shall pay any and all production taxes due on the gas.
6. At all times while gas is produced from the proration unit, each Party hereto shall make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to its purchaser its share, and its share only, of the total gas production. The Over-produced Party will report said production within 30 days following the month of production so that the Under-produced Party can make his royalty payments in a timely manner. Each party hereto agrees to hold each others party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owners" shall include owners of royalty, overriding royalties, production payments and similar interests.
7. The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and use of each are in proportion to Percentage Ownership. The Operator under the Operating Agreement is authorized to carry out the provisions of this Agreement, but shall not be liable for its failure to do so as long as it acts in good faith and as would a reasonably prudent Operator in the same or similar circumstances.
8. This Agreement shall constitute a separate agreement as to each well and as to each separately metered reservoir produced from each well within the proration unit.
9. This Agreement shall terminate when production permanently ceases and the parties' gas production accounts are balanced according to this Agreement.
10. Each party indemnifies the other parties against all liability for and agrees to defend the parties against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party whenever such claims are based upon said contractual relationship and arise out of the operation of this Agreement or activities of any party under its provision, and further agrees to save the other parties harmless from all judgments or damages sustained and costs incurred in connection therewith.

11. The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The parties agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject to the terms of this Agreement.
12. Any party to this Agreement who, as a result of taking less than its share of the gas produced from the lands covered by this Agreement, is unable or does not claim or utilize all of the tax credits arising under Section 29 of the Internal Revenue Code of 1986, as amended to which such party would otherwise have been entitled had it taken the full share of gas to which it was entitled, hereby waives and releases any claim or cause of action against any other party to this agreement for the value or amount of such tax credits not so claimed or utilized.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated March 20, 2000, by and between Cross Timbers Operating Company, as Operator and S.G. Methane Company, Inc., 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.