

FASKEN OIL AND RANCH, LTD.
303 West Wall, Suite 1900
Midland, Texas 79701
915/687-1777
fax 915/687-0669

October 30, 1997

(See attached list)
Rock Tank Working Interest Owners

RE: Carnero Federal No. 1 Well
500' FNL & 2265' FWL
Section 12, T23S, R24E
NMPM, Eddy County, New Mexico

Gentlemen:

By letter dated September 9, 1997, Fasken Oil and Ranch, Ltd. on behalf of Fasken Land and Minerals, Ltd. (collectively referred to as "Fasken") proposed the drilling of the captioned well. Wes Perry and Paul Lerwick approached Fasken regarding the drilling of the captioned well and the interests credited on the proposed Exhibit "A" to the Joint Operating Agreement dated August 1, 1997.

Below is a brief review of the history of operating agreements with respect to Section 12, T-23-S, R-24-E, NMPM, Eddy County, New Mexico:

1. On August 1, 1967, the Rock Tank Unit was formed covering all depths in lands to the east and including the E/2 of Section 12. This is a beneficial interest unit among working interest owners and the Unit Operating Agreement and was executed by Fasken and other parties owning beneficial interest in the entire Unit. This Unit Operating Agreement and Unit remains in full force and effect.

2. Gulf proposed drilling of a Morrow test well in Section 12 and the owners of the Rock Tank Unit along with the owners of the leasehold estate in the W/2 of Section 12, executed an Operating Agreement dated January 1, 1970 wherein Gulf Oil Corporation was Operator. A Morrow test well (Boothe BO Federal #1 Well) was drilled with first production occurring in July of 1970 and produced until October 1979, and has now been plugged and abandoned. The contract area for the January 1, 1970 Joint Operating Agreement covering Section 12 was restricted to the "Rock Tank Upper and Lower Morrow Pools". This Operating Agreement dated January 1, 1970 superceded a Joint Operating Agreement dated October 30, 1969 covering the W/2 of Section 12. Attached is a copy of the last revised Exhibit "A" to the January 1, 1970 Operating Agreement showing the division of interest of all parties.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11877 Exhibit No. 5
Submitted By:
Fasken Land and Minerals,
Hearing Date: February 5, 1998

3. The Operating Agreement of January 1, 1970 provides:

- (a) Paragraph 10 recites "This Agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this Agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise..."
- (b) Article 2c provides for a loss of leases for causes other than title failure and states "If any lease or interest subject to this Agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended or if any lease or interest therein is lost due to the fact that the production therefrom is shut-in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all of the parties in proportion to their interest and there shall be no readjustment of interest in the Unit Area."
- (c) Article 23 of the same Operating Agreement provides for sharing of renewal or extension leases acquired within six months after an expiration of an existing lease but is not applicable in this instance because the new lease acquired by Fasken in the W/2 of Section 12 was taken many years after the termination of the original lease covering the W/2 of Section 12.

4. The Federal Lease covering the W/2 of Section 12 that was originally a part of the January 1, 1970 Operating Agreement has long since terminated. The Communitization Agreement covering the entire Section 12 which was entered into in connection with the Operating Agreement of January 12, 1970 has also terminated.

5. It is Fasken's opinion that the Operating Agreement of January 1, 1970 is in full force and effect only as to the E/2 of Section 12 as to the zone covered thereby. Accordingly, the interests of the parties in the January 1, 1970 Operating Agreement are not adjusted because of the expiration of the lease covering the W/2 of Section 12 and, to the contrary, the ownership within the Morrow zone in the E/2 of Section 12 is the same as it originally was when the entire Unit was intact, because of the provisions quoted above with respect to title loss. In other words, it is Fasken's opinion (and its outside counsel agrees) that the original owners who had interests in the Unit because of their ownership of leases in the W/2 of Section 12 that have expired nevertheless remain as interest owners under the January 1, 1970 Operating Agreement that covers the E/2 of Section 12 as to the Morrow zone only.

Fasken acquired a new Oil and Gas Lease by assignment from Santa Fe Energy Operating Partners, L. P. on December 21, 1993. As you will remember, Fasken offered to all of the owners of the Rock Tank Unit a non-promoted interest in Federal Lease NM-91505

covering the W/2 of Section 12 in exchange for operations of the Rock Tank Unit among other conditions. This was not accepted at the time Fasken extended the offer.

By letter dated September 9, 1997, Fasken proposed the drilling of the Carnero Federal No. 1 Well, and attached a Joint Operating Agreement dated August 1, 1997 to the proposal for the governing of operations for such well.

We understand from the meeting with Wes Perry and Paul Lerwick, that Redstone et al are in agreement with the location proposed by Fasken. In order to afford Fasken the ability to commence operations for the drilling of the Carnero Federal No. 1 Well, Fasken will amend the Exhibit "A" to the proposed August 1, 1997 Joint Operating Agreement to reflect the following approximate Working Interest percentages:

Fasken	50%
Brooks	00.2616392%
Coll	00.20139279%
Lagrone	02.6105251%
Redstone	23.463221455%
Perry, et al	23.463221455%

Fasken hereby offers an assignment (of sufficient interest to effect the above percentages and at a Net Revenue Interest of 82.5%) in its lease covering the W/2 of Section 12, subject to the following terms and conditions:

1. Execution by all parties of the proposed Gas Balancing Agreement for the Rock Tank Unit as a means to resolve the imbalances issue (copy attached), and
2. All of the Rock Tank Unit Working Interest Owners ("Rock Tank Owners") agree to the above stated percentages for the sharing of costs and expenses for the Carnero Federal No. 1 well, and
3. Payment to Fasken of \$300 per net acre for the proportionate share assigned to each party for the interests in the W/2 of Section 12, and
4. Execution by all parties of the August 1, 1997 Joint Operating Agreement naming Fasken Oil and Ranch, Ltd. as Operator, and
5. Agreement by all parties that a second well drilled to the Morrow Formation and requiring a simultaneous dedication shall not be drilled in the NE/4 of Section 12 without the consent of all parties.

Fasken Oil and Ranch, Ltd. submits the above proposal for your consideration and in

hopes of resolving the different ownership interest between the Rock Tank Unit and the W/2 of Section 12. This proposal is subject to Fasken's final Management approval. Should you find the above proposal acceptable, please indicate your approval in the space provided below. In the absence of your approval, Fasken believes the only avenue available to the parties is forced pooling proceedings. We are requesting one final continuance of the forced pooling hearing scheduled for December 4, 1997 before the New Mexico Oil Conversation Division. The new tentative date for said hearing is January 8, 1998. If you have any questions, please feel free to call or write.

Very Truly Yours,

SMK By 

Sally M. Kvasnicka
Land Manager

SMK:me

enclosures

Elect to participate in the proposal set out above _____.

Elect to not participate in the proposal set out above. _____.

By: _____

Company: _____

Date: _____

Page 5

Brooks Oil and Gas Interests
9696 Skillman, LB 34
Dallas, Texas 75243

Max W. Coll II F/A/O
R. 9, Box 72F
Santa Fe, NM 87505

Fasken Oil & Ranch, Ltd.
303 West Wall, Suite 1900
Midland, Texas 79701

Finwing Corporation
P. O. Box 10886
Midland, Texas 79702

William Taylor Lagrone
P. O. Box 8020466
Dallas, Texas 75380

Manta Oil and Gas Corp.
P. O. Box 10886
Midland, Texas

Petratis Oil & Gas, Inc.
P. O. Box 10886
Midland, Texas 79702

SES Oil & Gas, Inc.
214 W. Texas, Suite 900
Midland, Texas 79702-0371

Redstone Oil & Gas Company
8235 Douglas Ave., Suite 1050
Dallas, Texas 75225

Olwick Corp.
P. O. Box 10886
Midland, Texas 79702

P 101 752 345

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.

Brooks Oil and Gas Interests
9696 Skillman, LB 34
Dallas, TX 75243

Postage	
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$

100, April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return the card to you.
- Attach the form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

- I also wish to receive the following services (for an extra fee):
- Addressee's Address
 - Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Brooks Oil and Gas Interests
9696 Skillman, LB 34
Dallas, TX 75243

4a. Article Number

P 101 752 345

4b. Service Type

- Registered Certified
- Express Mail Insured
- Return Receipt for Merchandise COD

7. Date of Delivery

11/21/94

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

X *Carroll Fed #1*

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

P 101 752 346

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.

Max W. Coll II F/A/O
R. 9, Box 72F
Santa Fe NM 87505

PS Form 3800 April 1995	Postage	
	Certified Fee	
	Special Delivery Fee	
	Restricted Delivery Fee	
	Return Receipt Showing to Whom & Date Delivered	
	Return Receipt Showing to Whom, Date, & Addressee's Address	
	TOTAL Postage & Fees	\$
	Postmark or Date	11-20-97 Carnero Fed #1

P 101 752 347

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Finwing Corporation
P. O. Box 10886
Midland TX 79702

Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$

00, April 1995

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- * Write "Return Receipt Requested" on the mailpiece below the article number.
- * The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:

Finwing Corporation
P. O. Box 10886
Midland TX 79702

4a. Article Number

P 101 752 347

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery **NOV 21 1997**

8. Addressee's Address (Only if requested and fee is paid)

Clarence Fed. # 1
Received By: (Print Name)
ARDEL KATZ
Signature (Address or Agent)
ARDEL KATZ

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

I also wish to receive the following services (for an extra fee):

- 1. Addressee's Address
 - 2. Restricted Delivery
- Consult postmaster for fee.

Thank you for using Return Receipt Service.

P 101 752 348

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.

William Taylor Lagrone
P. O. Box 8020466
Dallas TX 75380

Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	

April 1, 1995

Is your RETURN ADDRESS completed on the reverse side?

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- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:

William Taylor Lagrone
P. O. Box 8020466
Dallas TX 75380



5. Received By: (Print Name)

William Taylor Lagrone

6. Signature: (Addressed to Agent)

WTL Lagrone

4a. Article Number

P 101 752 348

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

11-25-97

8. Addressee's Address (Only if requested and fee is paid)

I also wish to receive the following services (for an extra fee):

- 1. Addressee's Address
 - 2. Restricted Delivery
- Consult postmaster for fee.

PS Form 3811, December 1994

102596-97-9-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

P 101 752 349

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.

Manta Oil and Gas Corp.
P. O. Box 10886
Midland TX 79702

Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$

1995 April 18 0800

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SENDER:
 ■ Complete items 1 and/or 2 for additional services.
 ■ Complete items 3, 4a, and 4b.
 ■ Print your name and address on the reverse of the form so that we can return the card to you.
 ■ Attach this form to the front of the mailpiece, or on the back if space does not permit.
 ■ Write "Return Receipt Requested" on the mailpiece below the article number.
 ■ The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:
 Manta Oil and Gas Corp.
 P. O. Box 10886
 Midland TX 79702

4a. Article Number
 P 101 752 349

4b. Service Type
 Registered
 Express Mail
 Return Receipt for Merchandise
 COD
 Certified

5. Received By: (Print Name)
 MANTA OIL AND GAS CORP

6. Signature: (Addressee or Agent)
 X MANTA OIL AND GAS CORP

7. Date of Delivery
 NOV 21 1994

8. Addressee's Address (Only if requested and fee is paid)

1. Addressee's Address
2. Restricted Delivery
 Consult postmaster for fee.

I also wish to receive the following services (for an extra fee):

102596-97-B-0179 Domestic Return Receipt

PG Form 3811, December 1994

Thank you for using Return Receipt Service.

P 101 752 350

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Petrattis Oil & Gas, Inc.
P. O. Box 10886
Midland TX 79702

Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$

800. April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return the card to you.
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- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:

Petrattis Oil & Gas, Inc.
P. O. Box 10886
Midland TX 79702

4a. Article Number

P 101 752 350

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- COD
- Certified
- Insured

7. Date of Delivery

NOV 21 1997

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)
Carmelo Fed #1

6. Signature: (Addresser or Agent)
Carmelo Fed #1

PS Form 3811, December 1994

102595-97-B-0178

Domestic Return Receipt

- I also wish to receive the following services (for an extra fee):
- Addressee's Address
 - Restricted Delivery
- Consult postmaster for fee.

Thank you for using Return Receipt Service.

P 101 752 351

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.

SES Oil & Gas, Inc.
214 W. Texas, Suite 900
Midland TX 79702-0371

Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	

0, April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
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- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:

SES Oil & Gas, Inc.
214 W. Texas, Suite 900
Midland TX 79702-0371

4a. Article Number
P 101 752 351

4b. Service Type

Registered Certified
 Express Mail Insured
 Return Receipt for Merchandise COD

5. Received By: (Print Name)
Carroll Ktd #1

6. Signature: (Addressee or Agent)
[Signature]

7. Date of Delivery
11-21-97

8. Addressee's Address (Only if requested and fee is paid)

1. Addressee's Address
 2. Restricted Delivery
 Consult postmaster for fee.

PS Form 3811, December 1994 102595-97-B-0179 Domestic Return Receipt

Thank you for using Return Receipt Service.

US Postal Service
Receipt for Certified Mail

Redstone Oil & Gas Company
 8235 Douglas Ave., Suite 1050
 Dallas TX 75225

Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$

5681 Indv 008

Is your **RETURN ADDRESS** completed on the reverse side?

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- * Complete items 3, 4a, and 4b.
- * Print your name and address on the reverse of this form so that we can return this card to you.
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- * Write "Return Receipt Requested" on the mailpiece below the article number.
- * The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- 1. Addressee's Address
 - 2. Restricted Delivery
- Consult postmaster for fee.

3. Article Addressed to:

Redstone Oil & Gas Company
 8235 Douglas Ave., Suite 1050
 Dallas TX 75225

4a. Article Number

P 101 752 352

4b. Service Type

- Registered Certified
- Express Mail Insured
- Return Receipt for Merchandise COD

7. Date of Delivery

11-25-91

8. Addressee's Address (Only if requested and fee is paid)

|||||

9. Signature of Addressee or Agent

X *John Harvey*

Carroll Fed # 1

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

P 101 752 353

US Postal Service
Receipt for Certified Mail
No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

Olwick Corp.
P. O. Box 10886
Midland TX 79702

Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$

800, April 1995

Is your RETURN ADDRESS completed on the reverse side?

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- The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to:

Olwick Corp.
P. O. Box 10886
Midland TX 79702

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

PS Form 3811, December 1994

102595-97-8-0179

Domestic Return Receipt

Domestic Return Receipt

I also wish to receive the following services (for an extra fee):

- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

4a. Article Number

P 101 752 353

4b. Service Type

- Registered
- Express Mail
- Return Receipt for Merchandise
- Insured
- COD

7. Date of Return

NOV 21 1997

8. Addressee's Address (Only if requested and fee is paid)

Numero Fed # 1

ASOL AVONEL

Thank you for using Return Receipt Service.

Gulf Oil Company - U.S.

EXPLORATION AND PRODUCTION DEPARTMENT

ROSWELL DISTRICT

December 15, 1970

P. O. Drawer 1938
Roswell, New Mexico 88201

Juan Chacin
DISTRICT MANAGER

M. I. Taylor
DISTRICT PRODUCTION
MANAGER

F. E. Wyche
DISTRICT EXPLORATION
MANAGER

H. A. Rankin
DISTRICT SERVICES MANAGER

Monsanto Company
101 North Marienfeld
Midland, Texas 79701
Attention: Mr. V. M. Basil

Atlantic Richfield Company
Post Office Box 1610
Midland, Texas 79701
Attention: Mr. Jack M. Biard

Mr. Max W. Coll, II
Post Office Box 1818
Roswell, New Mexico 88201

David Fasken
608 First National Bank Building
Midland, Texas 79701
Attention: Mr. Richard S. Brooks

Mobil Oil Corporation
Post Office Box 633
Midland, Texas 79701
Attention: Mr. Cletus Samples

Marathon Oil Company
Post Office Box 552
Midland, Texas 79701
Attention: Mr. Charles L. Southard

Jake L. Hamon
Post Office Box 663
Dallas, Texas 75221
Attention: Mr. W. T. LaGrone

Flag-Redfern Oil Company
Post Office Box 23
Midland, Texas 79701
Attention: Mr. Tom E. Johnson

Cities Service Oil Company
Cities Service Building
Bartlesville, Oklahoma 74003
Attention: Mr. J. E. Embry

Re: Boothe "BO" Federal No. 1 Unit covering
Section 12-23S-24E, Eddy County, New Mexico

Gentlemen:

Mr. C. H. Samples of Mobil Oil Corporation has pointed out that I have calculated slightly different interests than those shown in Exhibit "C" of Rock Tank Unit Operating Agreement. For one thing, I had transposed the Flag-Redfern and Mobil interests, and also, I had not carried the percentages out eight places as the basic instrument had. Enclosed is a correction sheet for the one transmitted with my letter of December 8, 1970. This time, in order that it can be distinguished from the erroneous one, I have marked it "11/6/70 (Revised 12/14/70)".

I sincerely regret any inconvenience this may have caused.

Very truly yours,


M. I. Taylor

WVK:ejj
Enclosure



cc: Cities Service Oil Company
Midland, Texas 79701
Attention: Mr. J. Frank Riney

EXHIBIT "A"

I. Lands Covered and Restrictions.

(a) Lands Subject to Contract.

All of Section 12, Township 23 South, Range 24 East, N.M.P.M., Eddy County, New Mexico, containing 640 acres, more or less.

(b) Restrictions, if any, as to formations or depths.

This agreement shall be effective only as to the Rock Tank Upper and Lower Morrow Pools as the same are defined by the New Mexico Oil Conservation Commission.

II. Percentage or Fractional Interests of Parties Under Agreement in the Lands Subject to Contract.

(a) Until Payout of Monsanto and Fasken Interests in the W/2 of Section 12-23S-24E, Pursuant to Section 31-B, Above.

<u>Working Interest Owner</u>	<u>Drilling and Operating Costs*</u>	<u>Participation In Production**</u>
Gulf Oil Corporation	51.372145%	51.529661%
Monsanto Company	16.429479%	16.360842%
David Fasken	16.429479%	16.360841%
Cities Service Oil Company	8.311165%	8.283456%
Atlantic Richfield Company	1.681881%	1.663228%
Jake L. Hamon	4.155563%	4.141705%
Mobil Oil Corporation	.480881%	.501548%
Flag-Redfern Oil Company	.498233%	.489989%
Marathon Oil Company	.320587%	.334365%
Max W. Coll, II	.320587%	.334365%
TOTALS	100.000000%	100.000000%

(b) After Payout of All Interests.

<u>Working Interest Owner</u>	<u>Drilling and Operating Costs*</u>	<u>Participation In Production**</u>
Gulf Oil Corporation	42.583083%	42.740599%
Monsanto Company	20.824010%	20.755373%
David Fasken	20.824010%	20.755372%
Cities Service Oil Company	8.311165%	8.283456%
Atlantic Richfield Company	1.681881%	1.663228%
Jake L. Hamon	4.155563%	4.141705%
Mobil Oil Corporation	.480881%	.501548%
Flag-Redfern Oil Company	.498233%	.489989%
Marathon Oil Company	.320587%	.334365%
Max W. Coll, II	.320587%	.334365%
TOTALS	100.000000%	100.000000%

III. Addresses of Parties to Which Notices Should be Sent.

Gulf Oil Company-U.S. A Division of Gulf Oil Corporation Post Office Box 1938 Roswell, New Mexico 88201	Atlantic Richfield Company Post Office Box 1610 Midland, Texas 79701
Cities Service Oil Company Cities Service Building Bartlesville, Oklahoma 74003	Mobil Oil Corporation Post Office Box 633 Midland, Texas 79701
Jake L. Hamon Post Office Box 663 Dallas, Texas 75221	Flag-Redfern Oil Company Post Office Box 23 Midland, Texas 79701
David Fasken 608 First National Bank Building Midland, Texas 79701	Marathon Oil Company Post Office Box 552 Midland, Texas 79701
Monsanto Company 101 North Marienfeld Midland, Texas 79701	Max W. Coll, II Post Office Box 1818 Roswell, New Mexico 88201

(*) Based upon Column 5 of Pg. 7 of Exhibit "C" to the Rock Tank Unit Agreement
 (**) Based upon Column 6 of Pg. 7 of Exhibit "C" to the Rock Tank Unit Agreement

**ROCK TANK WORKING INTEREST UNIT
GAS BALANCING AGREEMENT**

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GAS BALANCING AGREEMENT

REFERENCE is made to the Operating Agreement dated August 1, 1967 between MONSANTO COMPANY, Operator and David Fasken et al, Non-Operators, covering Section 1, E/2 Section 12, in T-23-S, R-24-E, and Sections 6 and 7 in T-23-S, R-25-E, Eddy County, New Mexico.

In consideration of the mutual obligations and benefits set forth herein the Parties hereto agree as follows:

ARTICLE I DEFINITIONS

For the purposes hereof, the terms set forth below are defined as follows:

1. "Operating Agreement" is the above-described Operating Agreement.
2. "Operator" is the Party then acting as Operator under the Operating Agreement at any relevant time hereunder.
3. "Party" or "Parties" are those persons, corporations, partnerships or other entities which have executed this agreement and own a working interest in the gas rights in and under the Contract Area.
4. "Gas" includes natural gas produced from gas wells and casinghead gas (which is all gas produced with crude oil), but does not include liquid hydrocarbons recovered by lease equipment.
5. "Balance" is the condition occurring when a Party has utilized, taken or sold (whether individually or through its purchaser) its exact ownership share (as such term defined in Article III below) of all gas produced at any relevant time hereunder.
6. "Overproduced" is the condition occurring when a Party has utilized, taken or sold (whether individually or through its gas purchaser) a cumulative percentage of gas produced in excess of its ownership share at any relevant time hereunder.
7. "Underproduced" is the condition occurring when a Party has utilized, taken or sold (whether individually or through its gas purchaser) a cumulative percentage of gas produced less than its ownership share at any relevant time hereunder.
8. "Taking" gas is the condition occurring when a Party is utilizing, taking or selling (whether individually or through its purchaser) a portion of gas being produced.
9. "Make-up" right is the right of an Underproduced Party to take more than its full share of the gas produced in an effort to become balanced and is more specifically defined in Article VIII below.
10. "Permanent Cessation of Production" occurs on the earliest date upon which one of the following occurs: (1) gas production ceases, no attempt is made to restore production within sixty (60) days thereafter.

ARTICLE II APPLICATION OF AGREEMENT

Unless otherwise agreed in writing, this agreement shall apply separately as to each producing well located in and on the Contract Area..

ARTICLE III OWNERSHIP OF GAS IN PLACE

The Parties own the working interests in the gas rights in and under the Contract Area in accordance with the working interest percentages or shares of participation (hereinafter referred to as "ownership share" or simply "share") set forth in Exhibit "A" to the Operating Agreement (or elsewhere therein) or as otherwise agreed upon by the Parties.

ARTICLE IV OWNERSHIP OF GAS PRODUCED

Except as otherwise set forth herein, each Party has the right to take its ownership share of gas produced as provided in the Operating Agreement. If at any time a Party fails to take its full ownership share of gas produced, then the terms of this agreement shall automatically apply without notice to any Party.

ARTICLE V
RIGHTS TO OVERPRODUCTION

During any period when any Party is not taking its full share of gas produced, the other Parties shall be entitled to take, in addition to their own shares, proportionate shares of the gas such Party is not taking. The right to take such additional amounts of gas is subject, however, to the following limitations:

- (a) Underproduced Parties shall always have the superior right to make-up production as set forth in Article VIII below; and
- (b) If a Party ("fully-produced Party") has already taken its full share of the estimated recoverable reserves (as determined by Operator from time to time) and there is then at least one underproduced Party willing and able to take the gas, such fully-produced Party shall have no right to take any of the gas unless otherwise agreed by the Parties.

Notwithstanding anything to the contrary herein, all Parties shall always be entitled to their full shares of all liquid hydrocarbons recovered by lease equipment (subject to the terms of the Operating Agreement), but any Party taking gas produced, whether in accordance with its ownership share or not, shall own all of such gas taken.

ARTICLE VI
ACCOUNTING FOR OVERPRODUCTION AND UNDERPRODUCTION

Each Party who takes gas shall furnish Operator monthly statements of all gas volumes taken, the prices received therefor and the disposition of those volumes (i.e. whether contract purchases, spot sales, own use or other). Such statements shall be furnished to Operator on or before the 25th day of the month following the month during which the gas was produced. On a cumulative basis, (a) each underproduced Party shall be credited with a volume of gas equal to its full share of the gas produced from the Contract Area, less its share of gas used in lease operations, vented or lost, and less that portion which such underproduced Party took; and (b) each overproduced Party shall be debited with a volume of gas equal to the excess which it has actually taken over its full share of the gas produced from the Contract Area less its share of gas used in lease operations, vented or lost.

ARTICLE VII
GAS BALANCING STATEMENTS

At all times while there is gas production, Operator will maintain a current account reflecting the overproduced and underproduced status of each Party and will furnish all Parties monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of gas taken by each Party and the monthly and cumulative overproduction and underproduction of each Party. Such statements ("gas balancing statements") will be furnished to the Parties by no later than the end of the second month following the month of production, unless Operator is prevented from doing so because of a lack of pertinent information in which event the gas balancing statements will be furnished immediately upon Operator's receipt of all pertinent information.

ARTICLE VIII
VOLUME BALANCING (MAKE-UP RIGHTS)

Upon timely written notice to Operator (as determined by Operator), any Party not previously taking gas may begin taking gas at any time, subject to the limitations set forth in Subpart (b) of Article V above. Further, upon timely written notice to Operator, any underproduced Party may at any time take, in addition to its full share of gas produced, the following quantities of gas ("make-up gas"):

- (a) Up to twenty-five percent (25%) of the shares of gas of all overproduced Parties; plus,
- (b) All of the gas attributable to the share of any Party who is not then taking gas.

If there is more than one underproduced Party taking make-up gas at any time, each such underproduced Party shall take that proportion of the make-up gas which its cumulative underproduction bears to the cumulative underproduction of all underproduced Parties then taking make-up gas.

ARTICLE IX
FINAL CASH BALANCING

Within thirty (30) days of permanent cessation of production of gas, (in no event later than ninety (90) days from the date production actually ceases), Operator shall determine the final accounting of underproduction and overproduction of the Parties and shall furnish a statement reflecting the same to each of the Parties. Within thirty (30) days of receipt of such statement of final accounting, each overproduced Party shall remit to Operator (for disbursement to the underproduced Parties) a sum of money (which sum shall not include interest) equal to the amount actually received by such overproduced Party for its share of overproduction, less applicable taxes, royalties and other reasonable costs associated with transporting and marketing such gas actually paid by such overproduced Party. For the purpose of calculating the payment to be made by an overproduced Party, if during any month such Party took less

than its full share of gas produced, a volume of gas equal to the difference between the amount of gas such Party actually took and the share to which such Party was entitled shall be credited against the overproduction of such Party, in the order such overproduction accrued. Within thirty (30) days of receipt of any such remittance by Operator from an overproduced Party, Operator shall disburse such funds to the underproduced Parties in accordance with the final accounting. Operator assumes no liability of whatsoever nature or kind with respect to any such payment, it being the intent of the Parties that each overproduced Party shall be solely responsible for reimbursing each underproduced Party for such underproduced Party's share of overproduction taken by such overproduced Party in accordance with the provisions contained herein. In determining the volume of overproduction for which settlement is due, production taken during any month by an underproduced Party in excess of its share shall be treated as make-up gas and shall be applied to reduce prior deficits in the order of accrual of such deficits.

In the event refunds are required by any governmental authority upon proceeds for which cash settlement has been made under this Article, each Party who is affected by the refund (including each underproduced Party to whom cash settlement has been made) shall be accountable for its proportionate share of such refund.

ARTICLE X DELIVERABILITY TESTS

Nothing herein shall be construed to deny any Party the right, from time to time, to produce and take or deliver to its purchaser an entire well stream, if necessary, for a deliverability test (not to exceed seven (7) days) as required or permitted by such Party's gas sales contract.

ARTICLE XI PAYMENT OF TAXES

Each Party taking gas shall either pay or cause to be paid all production, severance and/or excise taxes due on such gas.

ARTICLE XII PAYMENT OF ROYALTIES

At all times while gas is produced from the Contract Area, each Party hereto will make and/or cause to be made settlement with its royalty owners just as if such Party were taking its full share, and its full share only, of such gas production exclusive of gas used in operations, vented or lost. Each Party agrees to hold each other Party hereto harmless from any and all claims for royalty payments asserted by the royalty owners to whom it is accountable. The term "royalty owners" shall include owners of royalty, overriding royalty, production payments and other similar leasehold interests..

ARTICLE XIII OPERATING EXPENSES AND LIABILITIES

Nothing herein shall change or affect each Party's obligation to pay its proportionate share of all expenditures and liabilities incurred in joint operations in accordance with the Operating Agreement.

ARTICLE XIV OPERATOR'S LIABILITY

Except as otherwise provided herein, Operator is authorized to administer the provisions of this Agreement, but shall have no liability to the other Parties for losses sustained or liabilities incurred which arise out of or in connection with the performance of Operator's duties hereunder except such as may result from Operator's gross negligence or willful misconduct.

ARTICLE XV LIEN AND SECURITY INTEREST

To the extent that any Party hereto is overproduced, such party hereby grants a continuing lien and security interest to all underproduced Parties covering all of the ownership share of such overproduced Party in the Contract Area, its contract rights, accounts, accounts receivable, proceeds of production and personal property and equipment used or obtained in connection with the Operating Agreement in order to secure payments as provided herein. Said lien shall be otherwise governed by all of the terms and provisions relating to liens under the Operating Agreement. In addition to the above, any lien or security interest granted in the Operating Agreement to a Party against any underproduced Party who has failed to make any payments due thereunder ("defaulting Party"), shall cover and extend to the cumulative overproduction, if any, and any cash settlement made therefor (under Article IX hereof) due such underproduced defaulting Party.

ARTICLE XVI
TERM

This agreement shall terminate upon the termination of the Operating Agreement; provided, however, that if the accounts of the Parties have not been balanced or settled in accordance with the provisions contained herein, this Agreement shall continue in effect for so long as required thereafter to permit the full and final settlement of all accounts of the Parties. If any provision hereof should ever be construed to violate the rule against perpetuities, such provision shall be deleted to the extent necessary to bring the remainder of this Agreement in conformity with such rule.

ARTICLE XVII
SUCCESSORS AND ASSIGNS

(A) Notification of Transferee :

The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, representatives, successors and assigns. The parties hereto agree to give notice of the existence of this Agreement to any successor in interest and make any transfer of any interest subject both to the Operating Agreement and to the terms of this Agreement. Unless prior to such transfer a cash settlement has been made as to all unbalanced production from the proration unit subject to the transfer of interest, any transfer by an overproduced party of all or any part of its interest therein shall expressly provide for full assumption by the transferee of all then existing obligations of the transferor to underproduced parties, including all unsatisfied cash settlement obligations for overproduction. Such assumption by the transferee shall not relieve the transferor of any obligations for transferor's unbalanced overproduction nor shall the failure or omission of any underproduced party to require a cash settlement in accordance with this Agreement constitute a waiver of such party's rights to a balancing of such underproduction in accordance with this Agreement.

(B) Notice to Parties and Optional Cash Balancing

Upon any sale, assignment or other disposition, hereinafter called "transfer", by an overproduced party (other than through mergers or reorganizations) of all or any part of its interest in a proration unit, such party shall give notice thereof to the Operator and to all underproduced parties at least ninety (90) days prior to the anticipated closing date of the transfer. Each underproduced party so notified shall have until thirty (30) days prior to the later of the anticipated closing date or the actual closing date of the transfer within which to notify the overproduced party of its election to receive a cash settlement for its share of the overproduced party's overproduction on the same basis as though the proration unit subject to the transfer of interest had permanently ceased production. In the event the overproduced party making the transfer should fail to notify an underproduced party as required above, then any overproduced party not so notified shall have a lien upon the interest transferred in the amount of the cash settlement to which the underproduced party would otherwise have been entitled, which lien shall be subordinate only to any valid Operator's lien provided for in the Operating Agreement to which this Agreement is attached, and which lien shall not be in lieu or waiver of any other legal rights of such underproduced party, who shall have a cause of action against and be entitled to recover from such overproduced party and his transferee, or either of them, such cash settlement amount, plus costs, attorney's fees and interest at the highest legal rate from the date of the transfer, in addition to exercising rights under the lien herein granted.

ARTICLE XVIII
CONFLICT

If a conflict exists between the terms of this Agreement and the terms of any gas sales contract covering the Contract Area entered into by any Party or the terms of the Operating Agreement, the terms of this Agreement shall govern.

ARTICLE XIX
EFFECTIVE DATE AND COUNTERPARTS

This Agreement has been executed on the respective dates set forth beside each Party's name hereunder, but shall be effective for all purposes as of the date of the Operating Agreement (as set forth above). If this Agreement has been incorporated into and made a part of the Operating Agreement, then it shall not be considered to be a separate agreement from the Operating Agreement and it shall not be necessary for the Parties to separately execute this Agreement. If this Agreement is separate and apart from the Operating Agreement, the same shall be binding upon those Parties executing the same, a counterpart thereof (which shall be deemed an original for all purposes) or a ratification thereof.

ARTICLE XX
COMPLIANCE WITH LAWS AND REGULATIONS

This Agreement shall be subject to all applicable 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 notwithstanding proposed Chapter 1 of the Internal Revenue Code of 1986, Section 1.761-2 and any other applicable Internal Revenue Codes.

Redstone Oil and Gas Company

By: _____
Its: _____
Date: _____

**FASKEN OIL AND RANCH, LTD.,
a Texas Limited Partnership
by: Fasken Management, LLC
Managing General Partner**

By: _____
Its: _____
Date: _____

Max W. Coll II

By: _____
Its: _____
Date: _____

Norwest Bank/acct Max W.

By: _____
Its: _____
Date: _____

W. T. Lagrone

By: _____
Its: _____
Date: _____

D.O. Chappel, Inc.

By: _____
Its: _____
Date: _____

Brooks Oil and Gas Interests

By: _____
Its: _____
Date: _____

Finwing Corp.

By: _____
Its: _____
Date: _____

Manta Oil and Gas

By: _____
Its: _____
Date: _____

Olwick Corp.

By: _____
Its: _____
Date: _____

Petratis Oil and Gas

By: _____
Its: _____
Date: _____

WWP Oil and Gas, Inc.

By: _____
Its: _____
Date: _____

ACKNOWLEDGMENTS

Redstone
STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on _____, 1996 by _____

Notary Public Signature

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on _____, 1996 by Norbert J. Dickman, Vice-President of Fasken Management, LLC, General Partner, of Fasken Oil and Ranch, Ltd.

Notary Public Signature

Max W. Coll II
STATE OF NEW MEXICO §
 §
COUNTY OF SANTA FE §

This instrument was acknowledged before me on _____, 1996 by _____

Notary Public Signature

Norwest Bank/acct Max W.
STATE OF NEW MEXICO §
 §
COUNTY OF §

This instrument was acknowledged before me on _____, 1996 by _____

Notary Public Signature

W. T. Lagrone
STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on _____, 1996 by _____

Notary Public Signature

D.O. Chappel, Inc.

STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on _____, 1996 by

_____.

Notary Public Signature

Brooks Oil and Gas Interests

STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on _____, 1996 by

_____.

Notary Public Signature

Finwing Corp.

STATE OF TEXAS §
§
COUNTY OF MIDLAND §

This instrument was acknowledged before me on _____, 1996 by

_____.

Notary Public Signature

Manta O & G

STATE OF TEXAS §
§
COUNTY OF MIDLAND §

This instrument was acknowledged before me on _____, 1996 by

_____.

Notary Public Signature

Otwick Corp.

STATE OF TEXAS §
§
COUNTY OF MIDLAND §

This instrument was acknowledged before me on _____, 1996 by

_____.

Notary Public Signature

Petratis O & G

STATE OF TEXAS

§

§

COUNTY OF MIDLAND

§

This instrument was acknowledged before me on _____, 1996 by
_____.

Notary Public Signature

WWP O&G Inc

STATE OF TEXAS

§

§

COUNTY OF MIDLAND

§

This instrument was acknowledged before me on _____, 1996 by
_____.

Notary Public Signature