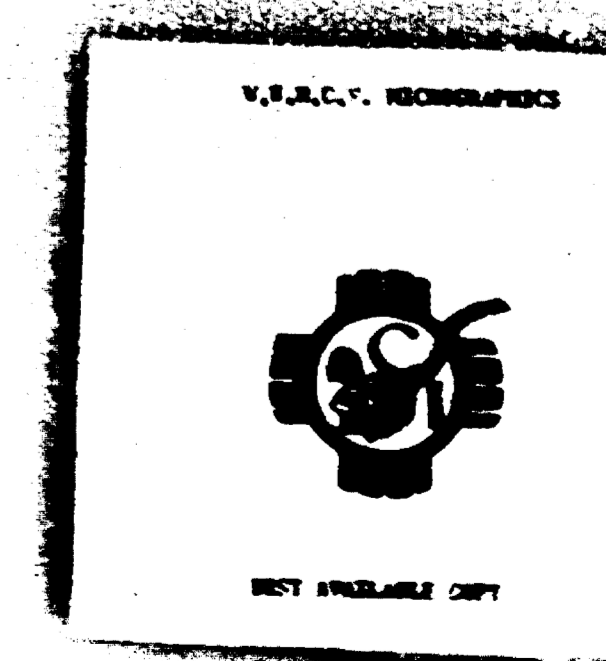
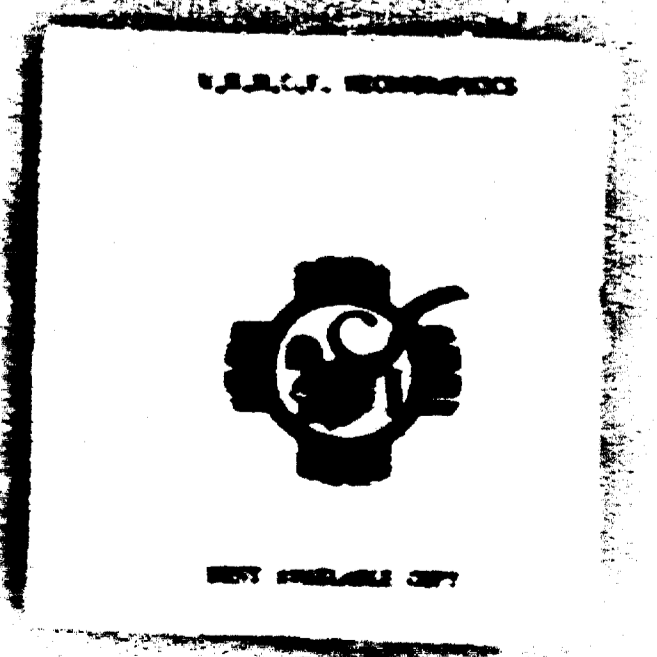
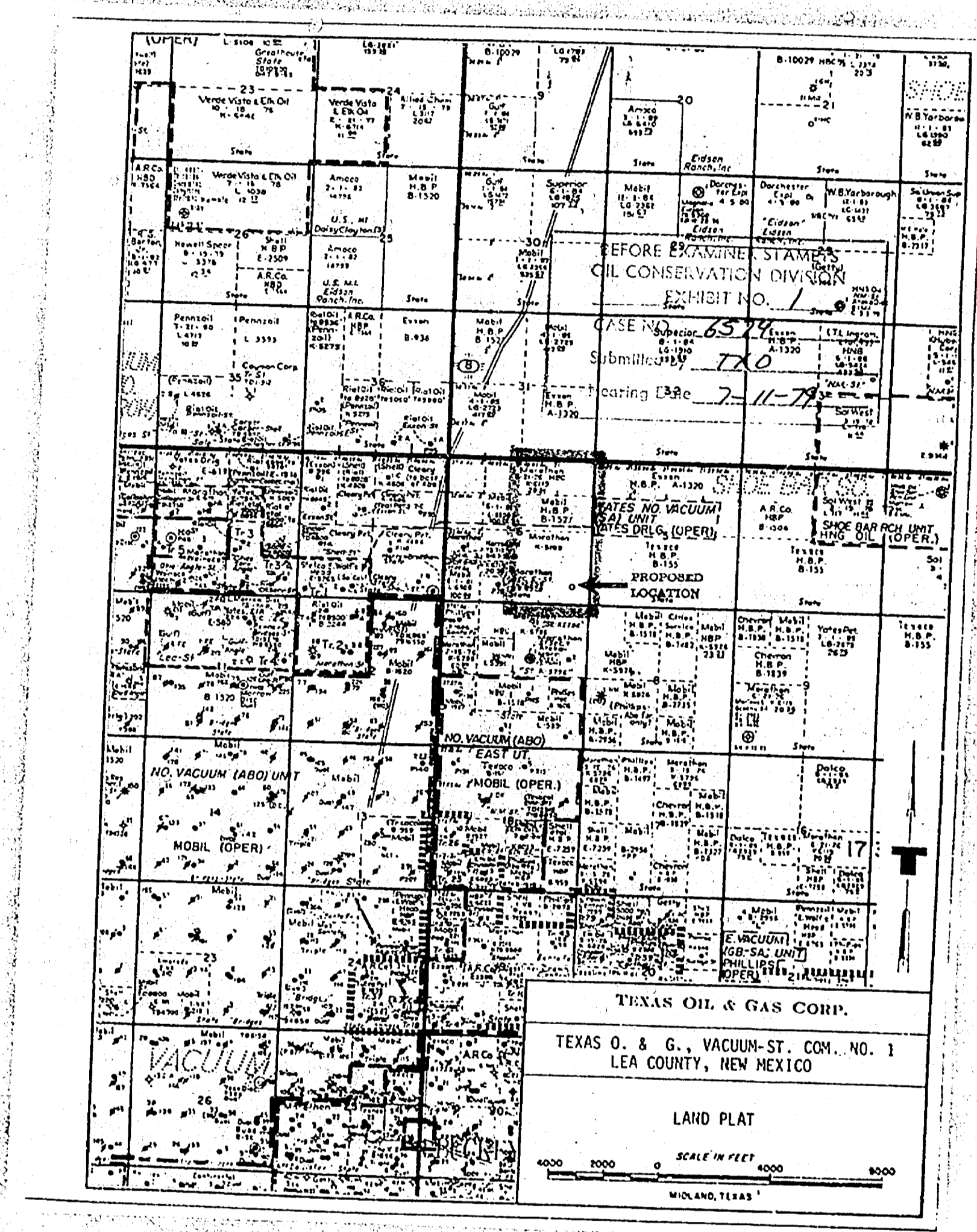


Case No.
6574

Large Exhibits





CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Marathon Oil Company
P. O. Box 552
Midland, Texas 79702

Attention: Mr. A. H. Hanley

Gentlemen:

As discussed Tuesday, June 26, 1979, with Mr. Hanley, Texas Oil & Gas Corp. has scheduled a compulsory pooling and unitization hearing for July 11, 1979. We would prefer to work out an acceptable farmout agreement covering your acreage as opposed to the compulsory pooling hearing.

Should you desire to discuss the farmout, please call me at 682-7992.

Sincerely yours,

DOYLE JOHN SHON

DJS:nb

cc: Vacuum North Prospect File

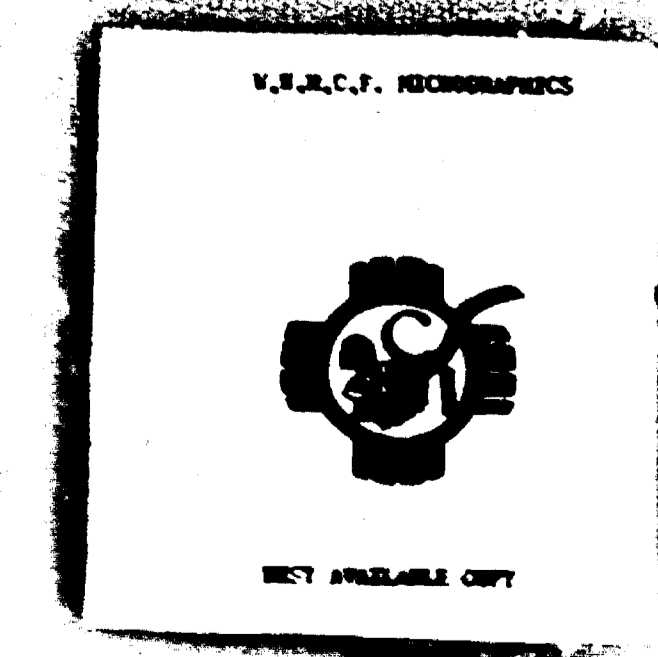
June 26, 1979

REC'D EXAMINED STAMPS OIL CONSERVATION DIVISION
CASE NO. 6824
Submitted by 2-11-79 TXO
Hearing Date 7-11-79

Re: Unorthodox Location and Compulsory
Pooling Hearing - E/2 of Section 6,
T17S, R35E, Lea County, New Mexico
(MSPD Case #6574)

SEARCHED	INDEXED
SERIALIZED	FILED
MIDLAND, TEXAS	
JUN 27 1979	
FBI - MIDLAND	

Marathon Oil Company
P. O. Box 552
Midland, TX 79702



SENDER (Print name, address and return to name on label)

1. The following services are requested (check one)

Show to whom sent and delivered

Show to whom, date, and address of delivery

RESTRICTED DELIVERY
Show to whom sent and delivered

RESTRICTED DELIVERY
Show to whom, date, and address of delivery & recipient's POSTMASTER'S NAME (SEE INSTRUCTIONS)

2. ARTICLE ADDRESSED TO
MIDLAND OIL COMPANY
P. O. Box 552
Midland, Texas 79702

3. ARTICLE DESCRIPTION

REGISTERED NO. 092702 CERTIFIED NO. INSURED NO.

(Always obtain signature of addressee or agent)

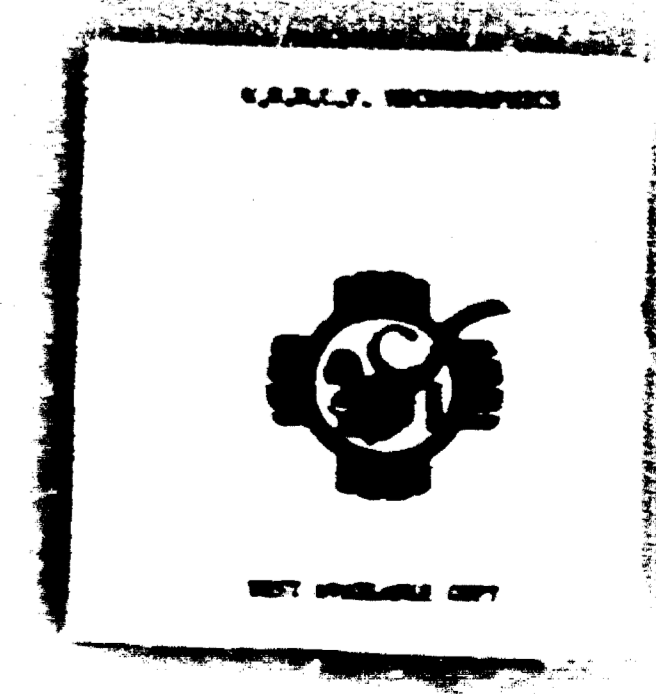
I have received the article described above.
SIGNATURE *[Signature]* Addressee Authorized agent

DATE OF RECEIPT

4. ADDRESS TO WHICH SENT

5. UNABLE TO DELIVER REASON

U.S. MAIL PERMIT NO. 1000



5-16-74
Mr. Hanley, said they'll have
to send the proposal to their
home office to get a response
since its HBP - Will take
quite some time. Also, he
wants a 75% NRI
1/8 BE at P.O. *PH*

Marathon Oil Company
P. O. Box 582
Midland, Texas 79702

Attention: Mr. A. H. Hanley

Re: Farmout Request,
E/2 of Section 6,
T-12-S, R-30-E,
Lee County, New Mexico

Gentlemen:

In accordance with the telephone conversation between Mr. Hanley and Mr. Canfield of our office, Texas Oil & Gas Corp. requests Marathon to join with Texas Oil & Gas Corp. in drilling a 12,000' Morrow formation test well at a proposed location of 560' from the South and East lines of Section 6 above described. The operation will cover the E/2 of Section 6. Our estimated well costs are approximately \$600,000.00 for a dry hole and \$500,000.00 for a completed well.

If Marathon prefers not to join in the drilling of the proposed well, Texas Oil & Gas Corp. requests a farmout of its acreage subject to the following terms:

Marathon will retain a 1/16th of 9/30th overriding Royalty Interest with the option at the payout of the test well to convert the override to a 31-1/31 Working Interest. The overriding Royalty and Working Interest will be proportionately reduced as to Marathon's ownership in the E/2 of Section 6.

Operations on the initial test well after payout and all subsequent operations on the E/2 of Section 6 will be subject to the terms of a 1977 model form Operation Agreement containing a Gas Balancing Agreement and provisions acceptable to all parties. Failure to drill the proposed well will result only in a forfeiture of those rights to have been earned under the terms of the proposed farmout.



Farmout Request
Marathon Oil Company
Page 2

Should you elect to farmout, we would appreciate your advising us of any Gas Contract in existence since such a Contract may prohibit the drilling of the well due to a low price. Our offer to drill the well is based on the assumption that a reasonable gas price can be obtained for the gas.

Thank you for considering our proposal. We would appreciate your prompt reply.

Sincerely yours,

DOYLE JOHN SIMON

DJS:rb
cc: Vacuum North Prospect File





Marathon
Oil Company

Houston Division
Production Evaluation, U.S. & Canada

P.O. Box 505
Midland, Texas 79702
Telephone 955-662-1000

FEB 14 1979
TEXAS OIL & GAS CORP.

February 13, 1979

Texas Oil & Gas Corp.
900 Naco Building
Midland, Texas 79701

Attention: Mr. Doyle John Snow
Gentlemen:

Vacuum Prospect

Re: Our Lease No. 1973 - State Lease K-5119
20-2823 - State Lease K-5189
Lea County, New Mexico

Receipt is acknowledged of your letter of February 2, 1979, requesting
a farmout covering the 50%, 85% and 95% of Section 6, T-17-S,
R-25-N, Lea County, New Mexico.

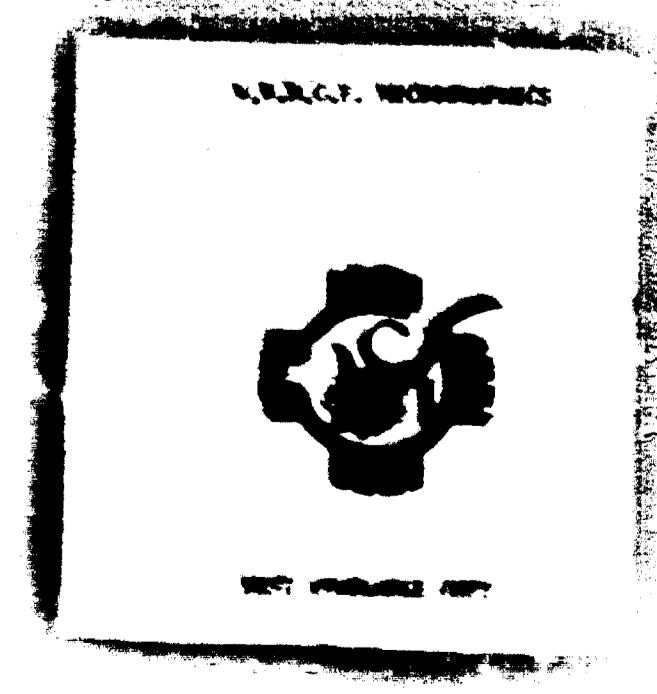
Your inquiry was appreciated; however, we are not interested in
farming out these leases at the present time.

Yours very truly,

MARATHON OIL COMPANY

A. W. Hensley
A. W. Hensley
District Landman

AMH-DR:dc



February 2, 1979

Marathon Oil Company
P. O. Box 532
Midland, Texas 79702

Attn: Mr. A. W. Hanley

Re: State of New Mexico Lease K-5109
and K-6119 covering the SE/4, SW/4
SW/4 and NW/2 SW/4 of Section 6,
T12S, R36E, Lea County, New Mexico

Enclosure:

Texas Oil & Gas Corp. requests a farmout of the above described acreage subject to Texas Oil & Gas Corp. drilling a 12,000 foot Morrow formation test well 600' feet from South and East lines of Section 6. Marathon will retain a 1/16th of 3/16ths overriding royalty interest with the option at point of the test well to convert the override to a 13-1/3rd percent working interest, both the override and working interest being proportionately reduced as to your current ownership. In the SW/4 of Section 6. Subsequent operations on the initial test well after payout and all subsequent operations on the SW/4 of Section 6 following the drilling and completion of the initial test well will be subject to the terms of a 1977 Model Farm Operating Agreement containing slight revisions and a Gas Balancing Agreement. Failure to drill the proposed well will result only in a forfeiture of those rights to have been earned had such well been drilled.

Please advise us of any Gas Contract in existence since such a contract may be prohibitive in drilling the well. Our offer to drill the well is based on the assumption that a reasonable price will be obtained for the gas.

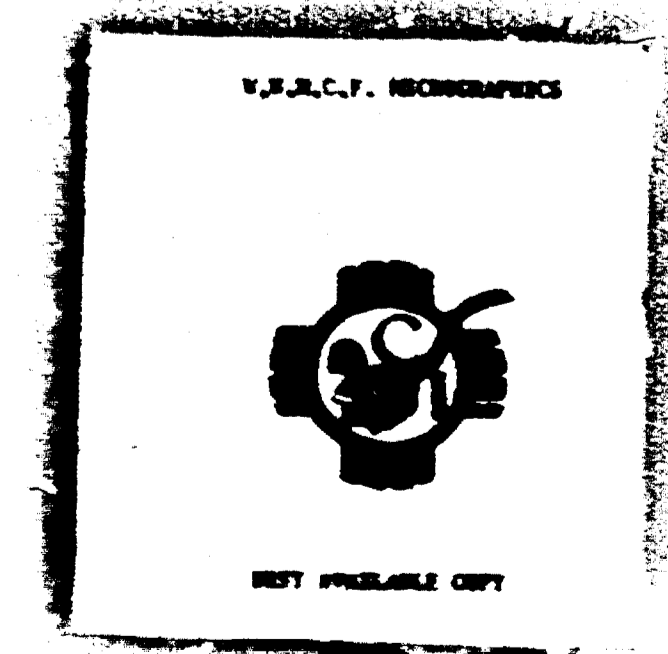
Thank you for considering our proposal. Should you desire to discuss the proposal in greater detail, please contact me at telephone number 652-7392.

Sincerely yours,

Boyle John Snow

BJS/scs

ccc/north Vacuum Prospect file



TEXAS OIL & GAS CORP.
Form No. 71/73

AUTHORITY FOR EXPENDITURE
DRILLING WELL

District West Texas Date 7/10/79
 Lease Name Vacuum North Prospect Well No. _____ Depth 12,200'
 Field Vacuum County Lea State New Mexico
 Requested By: U. G. Approved By: _____

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST	
			CASH	DEBIT TO FUND
DRILLING				
251 Location, Roads, Bore Work			25,000	
DRILLING CONTRACT - 231 Footage				
255 Drystack WOP	50	4550	227,500	
256 Drystack WOP	5	4500	22,500	
257 Drystack NIBU			24,000	
102 Casing 400', 13-3/8" 5200' 8-5/8"			61,500	
104 Casings			4,500	
233 Cementing Service & Supplies			25,000	
242 Rentals			12,000	
230 Mud & Chemicals & Water			75,000	
234 Testing & Logging & Mudlogging			40,000	
204 Supervision			70,000	
230 Other BICs, BHA & Drig Tools			70,000	
TOTAL DRILLING			610,000	
COMPLETION				
241 Rig (incl. Day Work)	22	2300	23,200	
102 Casing 45"			71,000	
233 Cementing Service & Supplies			15,000	
240 Rentals			15,000	
103 Tubing			36,000	
108 Sub-Surface Equipment			7,500	
234 Testing, Logging & Perforating			15,000	
236 Stimulation			70,000	
106 Wellhead			12,000	
204 Supervision			3,000	
230 Other			10,000	
TOTAL COMPLETION			262,700	
PRODUCTION EQUIPMENT				
105 Pumping Unit				
106 Engine & Motors				
107 Rods				
110 Flow Lines			3,000	
111 Installation			2,000	
115 Storage			18,000	
117 Separators, Heaters, Treaters			40,000	
120 Other Equipment			10,000	
TOTAL PRODUCTION EQUIPMENT			76,000	
TOTALS			948,700	

OWNER NAME _____ WORKING INTEREST _____ DATE APPROVED _____

BEFORE EXAMINER STAMPEL
OIL CONSERVATION DIVISION
EXHIBIT NO. 3
CASE NO. 6524
Submitted by T. G. AFE No. _____ Lease No. _____
Hearings Date 7-11-79



Mobil Oil Corporation

WELL PRODUCTION PLEA DATE 2/11/75
SECTION 10-546-79

June 11, 1975

BEFORE DOMINGUEZ RAMIREZ

CH. C. RAMIREZ, HIGH EXHIBITION

CASE NO. 6574

Submitted by T.K.D.

Hearing Date 2-11-75

Texas Oil & Gas Corporation
900 Wilco Building
Wichita, TX 79701
Attention: Mr. Doyle John Snow

PROPOSED FARMOUT
NM-567 (STATE)
LEA COUNTY, NEW MEXICO
PROP. NO. 10-546-79 (REVISED)

Gentlemen:

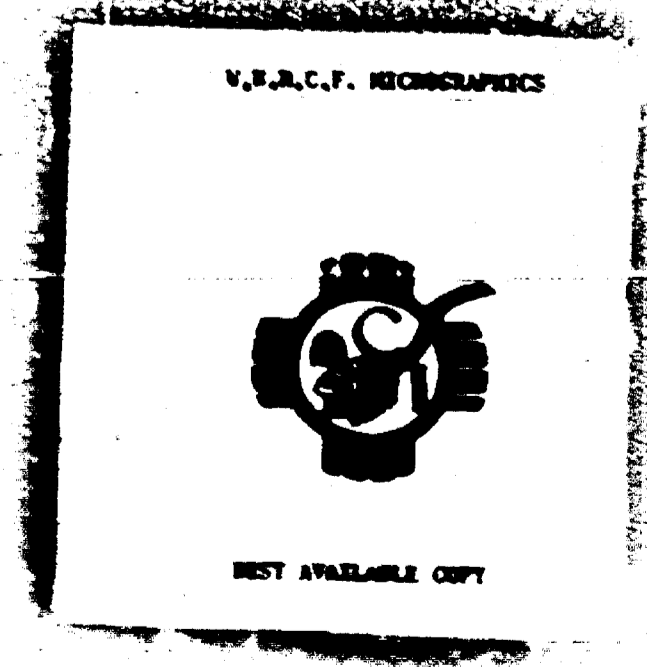
Mobil Oil Corporation is the owner of the following described Oil, Gas and Mineral lease:

8-1527 (MOC NM-567) - Oil and Gas Lease dated December 21, 1932, by and between the State of New Mexico, Lessor, and Magnolia Petroleum Company, Lessee, insofar as said lease covers the South Half of the Northeast Quarter (S/2 NE/4) of Section 6, T-17-S, R-35-E, Lea County, New Mexico.

Reference is hereby made to said lease and the record thereof for this and for all other purposes.

If you (a) commence on or before ninety (90) days from the date hereof the drilling of a well at a location on the SE/4 SE/4 said Section 6, (b) prosecute the drilling of said well with due diligence to a depth sufficient to test to this company's complete satisfaction the Morrow formation, at an estimated depth of 12,000 feet, (c) complete said well as a producer of gas in paying quantities within a reasonable time not later than 180 days from the date of commencement, and (d) have fully complied with all other provisions hereof, we agree to assign to you, without warranty in law or in equity, all of our oil and gas operating rights in the above-described lease, insofar and only insofar as said lease covers the S/2 NE/4 Section 6, T-17-S, R-35-E, Lea County, New Mexico, 80 acres, more or less, down to the depth of 100 feet below total depth drilled, subject however, to the further conditions, obligations and reservations hereinafter set out. Said well is sometimes hereinafter referred to as the "confining well".

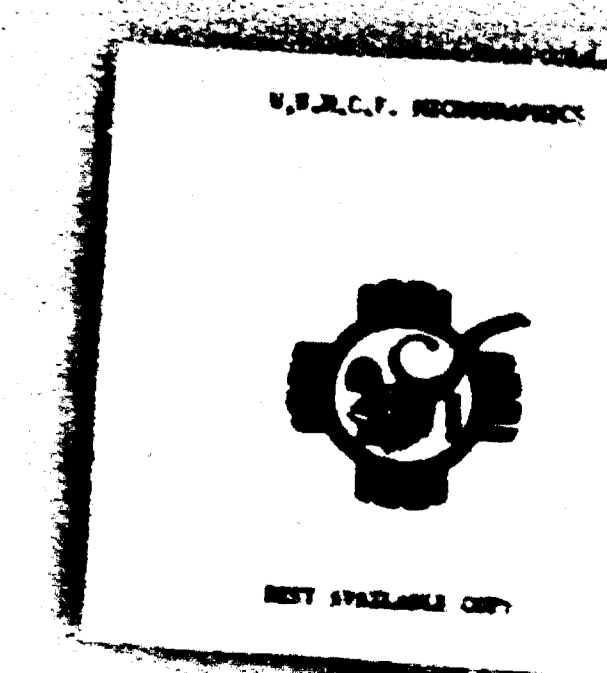
In any assignment which we make to you pursuant to the terms of this agreement, we shall reserve and retain the following:



Mobil

Texas Oil & Gas Corporation 2 June 11, 1979

- A. All oil, gas and related hydrocarbons under the assigned premises covered by the above-described lease below the depth of 100' below the total depth drilled in said well.
- B. Subject to the "back-in" provisions of this agreement which follow, we shall reserve a free overriding royalty of 1/8 of 8/8 of all the oil, gas and other liquid hydrocarbons which may be produced and saved from the earning well. If Mobil's interest in said lease, insofar as it covers the assigned premises, is less than a full interest or if said lease, insofar as it covers the assigned premises, covers less than a full interest, said overriding royalty interest in such lease shall be proportionately reduced. The overriding royalty hereby reserved shall be in addition to any and all existing overriding royalties, production payments and other burdens, if any, affecting or payable out of the oil and gas leasehold estate in the assigned premises, or any part thereof. Said overriding royalty oil (including liquid hydrocarbons saved at the well) shall, at Mobil's option, be delivered free of cost to Mobil, either into its storage tanks or to its credit in the pipeline to which the earning well or wells may be connected. Said overriding royalty on gas (including gas-well gas, casinghead gas, and all other gaseous hydrocarbons) shall be measured on the basis of the market value at the well(s) from which produced. You shall furnish Mobil complete statements, at such intervals and on such forms as Mobil may request, covering production from the earning well, measurement thereof, amounts stored, used, delivered to pipelines and sold. Fuel oil and gas may be deducted before computing said overriding royalty.
- C. The right and option to convert the above-described overriding royalty to a leasehold estate in the assigned premises equal to an undivided 3/16th of the leasehold interest owned by Mobil therein immediately prior to execution of said assignment, such leasehold estate to be free and clear of any overriding royalty, production payment or other burden not now existing. The following provisions shall govern the time and manner of exercising such right and option:
- (1) Promptly after "payout (as the term "payout" is hereinafter defined) of the earning well drilled under the terms of this agreement, you shall notify Mobil in writing of such fact.



Mobil

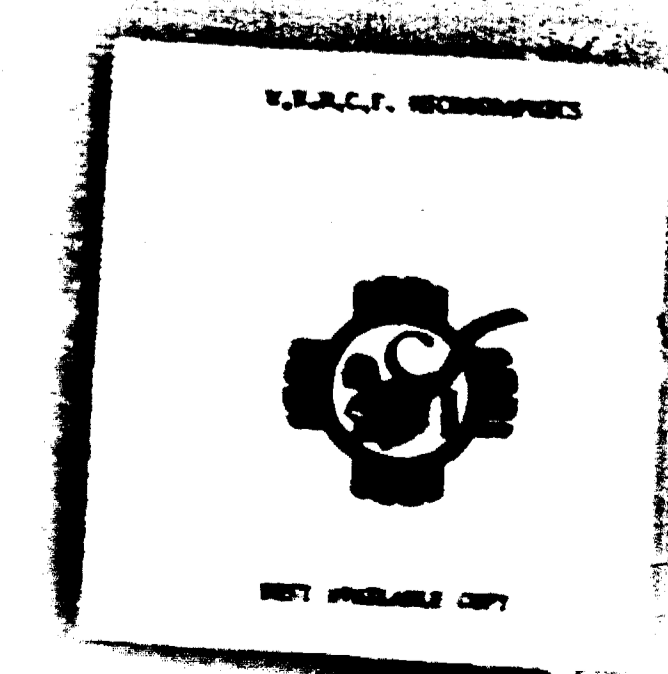
Texas Oil & Gas Corporation

3

June 11, 1979

Within 30 days after receipt by Mobil of any such notice of payment, Mobil shall notify you in writing whether or not Mobil elects to exercise its above-stated right and option. If Mobil so notifies you of its election to exercise such right and option, you shall promptly assign to Mobil the above-specified interest in the assigned premises, the well or wells thereon and personal property appurtenant thereto, and Mobil shall release the above-described overriding royalty interest, both effective as of 7:00 a.m. on the day following the date of payment. Concurrently with delivery of said assignment, the owners thereof shall execute an operating agreement to be the same in form as Exhibit "II" hereto and to be completed in the manner specified therein.

- (11) "Payment" of the earning well shall mean the date on which you shall have recovered out of the total proceeds of production from the pooled or communitized gas unit as hereinafter provided (after deducting the lease royalty, any and all overriding royalties and production payments arising at the time of the original assignment from Mobil to you and affecting the assigned premises, the overriding royalty reserved by Mobil hereto and applicable gross production taxes) 100% of the cost of drilling, completing, testing and equipping said well to produce through the tanks, in the case of an oil well, or into the pipeline to which the well may be connected, in the case of a gas well, together with 100% of the operating costs thereof up to such time. The Accounting Procedure made a part of the Operating Agreement form attached hereto as Exhibit "II" shall govern the extent to which expenses may be charged to such well (as well as the basis of all such charges and credits thereon) for the purpose of determining payment.
- (12) You shall keep an accurate record of all costs of drilling, completing, testing, equipping and operating said well, which record shall be available at all reasonable times for inspection by Mobil and its duly authorized representatives. You shall furnish Mobil a monthly statement showing the total proceeds from production (and the amount of the above-described authorized deductions therefrom) from the earning well for the previous month and the well costs for such month (such costs to be detailed to the same extent as required by Provision 1.2 of said Accounting Procedure). Such statement shall also show the cumulative well-cost and production proceeds so that the then current payout status of the well can be readily ascertained. Mobil's representatives shall have the right to audit your books to the same extent a non-operator is given the right to audit the books of operator under the terms of said Accounting Procedure.



Mobil

Texas Oil & Gas Corporation 4 June 11, 1979

Upon completion of the existing well as a gas well capable of producing gas in paying quantities, you shall pool or communitize the above-described lease insofar as it covers the land and depths subject to this agreement with other oil and gas operating rights or leasehold estates to form a unit for the production of gas, said unit to be comprised of the E/2 of Section 6, Township 17 South, Range 35 East, Lea County, New Mexico. The overriding royalty, or the oil and gas operating rights and working interests to which said overriding royalty may be converted, as herein provided, shall be reduced proportionately to the amount that the assigned premises placed in the unit bears to the total acreage so pooled or communitized in said unit. We agree to join with you in execution of such instrument(s) as may be required for formation of such unit.

This agreement and any assignment made pursuant hereto is subject to the Castilehead Gas Sales Contract between Mobil Oil Corporation, Seller, and Phillips Petroleum Company, Purchaser, dated August 1, 1962, covering gas produced from the above-described property. You shall, as to any interest assigned to you hereunder, be bound by said contract as fully as if you had executed the same.

Exhibit "I" attached hereto is a part of this agreement as if copied in full hereof. If there be any conflict between Exhibit "I" and the foregoing provisions of this agreement, said foregoing provisions shall prevail.

This letter is in triplicate and is not binding upon us unless accepted by you as evidenced by your signature and two signed copies are returned to this company within fifteen (15) days from your receipt hereof, at which time this letter shall constitute a valid and binding contract between you and Mobil Oil Corporation.

Yours very truly,

MOBIL OIL CORPORATION

By S. I. Alexander
S. I. Alexander
Division Land Manager

N2V/gs

AGREED TO AND ACCEPTED THIS
DAY OF _____, 1979:

TEXAS OIL & GAS CORPORATION

BY _____

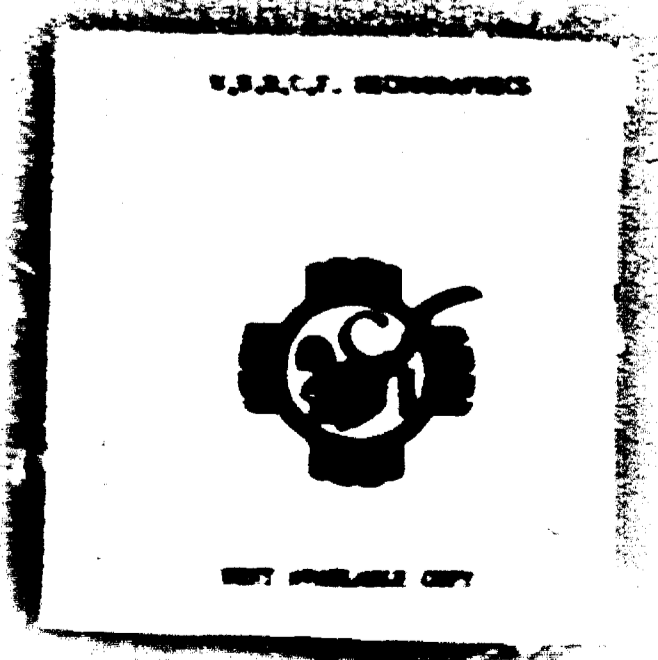


EXHIBIT "A"

ANNEXED TO AND MADE A PART OF FARMOUT LETTER AGREEMENT BETWEEN NOBIL OIL CORPORATION AND
Texas Oil & Gas Corporation

TO: June 11, 1979

Additional Covenants, Agreements, Terms and Conditions

A. With respect to each well provided for in this Farmout Letter Agreement:

1. Nobil, and its authorized employees and representatives, shall at any and all times have free access to (i) the well, including freedom of the derrick floor, and (ii) all information and records pertaining to the well and the production therefrom.
2. You shall test to Nobil's complete satisfaction all formations covered by this Agreement which reasonably appear capable of producing oil or gas; and at Nobil's request you shall core and/or test by drillstem or other method specified by Nobil, any and all formations covered by this agreement which Nobil believes may be oil-bearing or gas-bearing formations.
3. Before any testing, coring or logging operations are begun, you shall notify one of the following persons (in the order listed) in sufficient time for Nobil representative to be present or witness the same:

Name	Office Phone	Home Phone
<u>D. E. Dewey</u>	<u>713 - 871-5112</u>	<u>713 - 688-0895</u>
<u>H. J. Holmquist</u>	<u>713 - 871-5089</u>	<u>713 - 467-9307</u>
<u>C. K. Peltier</u>	<u>713 - 871-5090</u>	<u>713 - 461-8664</u>

4. You shall, at your own expense, furnish to the Nobil representative(s) designated hereinafter the following:

- (a) Daily progress reports by telephone each morning (except Saturdays, Sundays and Nobil employee holidays) before 9:00 a.m. from the time the well is opened until it is finally completed (such reports covering Saturday, Sunday and holiday operations to be furnished by 9:00 a.m. of the next succeeding day which is neither a Saturday, Sunday nor holiday). Such daily progress reports shall be telephoned to NOBIL OIL CORPORATION, 713 - 871-5087, at Nine Greenway Plaza, Suite 2700, Houston, TX 77046.
- (b) All data and information from the well, including but not limited to the following (same to be furnished to Nobil at Nine Greenway Plaza, Suite 2700, Houston, Texas 77046):

Attention: David E. Dewey

 - (1) Two copies of each form and report filed with any governmental authority; and one copy to S. J. Algeyer, at the above address.
 - (2) Two copies of all logs and surveys, core and fluid analyses, drillstem, wireline or other test charts, evaluation reports, logging reports and data-recording system reports.
 - (3) Representative chips from all cores, taken at one-foot intervals (sample of cuttings taken at four intervals from _____ feet to _____ feet and (if requested by Nobil) two cores of fluid from each drillstem test).
 - (4) Two complete sets (including both field prints and final copies) of each of the following: (i) an induction-resistivity log, from bottom of the surface casing to total depth; (ii) a sonic log through the zone of interest in the well; or, at Nobil's request, from the bottom of the surface casing to total depth (which induction-resistivity log and sonic log you agree to run before completion or abandonment of the well); and (iii) if requested by Nobil, a dipmeter survey from the bottom of the surface casing to total depth.



13) Daily production reports (if the well is completed as a producer) from the time the initial potential test is completed until 30 days after the date on which production from the well is first marketed; and

(4)

14) In the event the well is not capable of producing oil or gas in paying quantities, you shall promptly plug and abandon the same before plugging and abandoning the well, however, you shall observe Mobil's authority therefor.

15) Mobil shall have the right and option to conduct a velocity survey in the well if you do not conduct such a survey. You shall give Mobil advance written notice (a minimum of 48 hours before plugging or running any production casing in the well) of your intention not to run a velocity survey or that Mobil will have ample time to get the necessary personnel and equipment on the rig location and exercise its option to run a velocity survey. Any velocity survey conducted by Mobil hereunder shall be run at its own expense, and Mobil agrees to pay all standby rig time attributable to the running of its velocity survey. Mobil shall retain all trading and lease rights to any velocity survey run at its expense hereunder and shall not be obligated to furnish you the results of, or any information or data concerning, said velocity survey.

16) You shall notify Mobil before shutting in any gas well drilled on land covered by this Agreement, whether such shut-in occurs before or after initial production from said well, and you shall take all necessary action to insure that you and all payments required by reason of the shut-in under this term of any lease(s) affected by this Agreement are timely and properly made. Unless and until otherwise specifically provided by mutual agreement of the parties in writing, you shall make all such shut-in payments and shall bear 100% of the amount thereof.

17) Unless and until otherwise specifically provided by mutual agreement of the parties in writing, Mobil shall pay or tender for costs to be paid or tendered, all materials and minimum royalties, if any, which may hereafter become due under the term of any lease(s) covered by this Agreement. You shall have no liability to you for failure to make any such payments or tenders or to make same timely or properly, and you shall, within fifteen (15) days after receipt of invoice therefrom, reimburse Mobil for 100% of all of such rentals or minimum royalties as paid or tendered and attributable to lease(s) then covered by this Agreement.

18) All operations by reason of this Agreement other than those, if any, which Mobil actually conducts under a specific right or obligation to do so, as herein provided, or which are actually conducted under terms of an Operating Agreement between Mobil and you are hereby provided for herein (all such operations being hereinafter called "operations hereunder") shall be at your own risk and expense and under your exclusive control.

19) All operations hereunder shall be conducted with due diligence and in a good and workmanlike manner. Time is of the essence in the conduct of all operations hereunder and in the performance of all your obligations under this Agreement.

20) You shall indemnify and save Mobil harmless from and against any and all claims, demands, causes of action and judgments of whatever nature (and all costs and fees in connection with the same) arising in favor of any party (including you, your employees, Mobil's employees and any other party) (hereinafter "third parties") for or on account of personal injury, death, property damage or for any other reason whatsoever, incurred in or arising, directly or indirectly, from operations hereunder. You shall also pay Mobil for all damages to its property and shall indemnify and save Mobil harmless from and against any and all fines, claims and expenditures against Mobil's property (and from and against the payment or satisfaction of same) arising, directly or indirectly from, or incident to, operations hereunder.

21) You shall obtain and pay for all permits and licenses, if any, required for conducting operations hereunder and shall strictly comply with all applicable laws and ordinances and all applicable government laws, regulations, codes, orders in connection with qualifying for and conducting operations hereunder, including, without limitation, the Fair Labor Standards Act, the Occupational Safety and Health Act, all applicable public utility laws, ordinances, rules, regulations and orders and laws pertaining to ecology and the environment (as all of same have been or may hereafter be amended). You shall also, unless exempt, comply with Executive Order 11845 (Equal Employment Opportunity) effective October 24, 1965, as such may hereafter be amended or superseded, together with all relevant governmental laws, regulations and orders which may hereafter be enacted or proposed, together with all pertinent laws, ordinances, rules, regulations and orders which shall be deemed incorporated herein by reference and shall be binding upon you to the same extent as if contained in full herein.

22) You shall restore the surface of the land affected by operations hereunder to the condition and to the state(s) covered by (1) the express or implied covenants of the lease(s) and other instruments, if any, pertaining to lands covered by this Agreement and (2) applicable laws and ordinances and applicable government laws, regulations and rules.



1. Any assignment or lease given by Mobil pursuant to the terms of this Agreement shall be executed by Mobil without necessity of title, other covenants or benefits. In addition, and such assignment or lease may, at Mobil's election, include each of the provisions of this Agreement as Mobil deems appropriate to include.

2. Unless Mobil receives from you a written request for any assignment or lease to which you would become entitled in whole or in part under the provisions of this Paragraph 1, within sixty (60) days after completion of the well which is the particular well being assigned or leased, you shall have no right to receive any such assignment or lease from Mobil, notwithstanding anything in this Agreement to the contrary.

3. If you fail timely and properly to complete, drill and complete any well(s) provided for herein in accordance with the provisions hereof and you fail to perform any of your contractual duties, obligations or agreements hereunder, Mobil may terminate your further rights, if any, under this Agreement. Any termination for non-performance of contractual duties, obligations or agreements shall, however, be evidenced by written notice to you, specifying the particular act(s) or omission(s) constituting such non-performance, and your further rights under this Agreement shall terminate upon your receipt of any such notice. The rights given Mobil under this Paragraph 3 shall be in addition to any and all other rights or remedies afforded Mobil by this Agreement or otherwise available to Mobil, either at law or in equity.

4. Mobil, its successors and assigns, shall have, and in any assignment or lease issued by Mobil pursuant to this Agreement shall include to you, as to the operations or depths covered thereby, being hereinafter sometimes called "Assigned Provisions", Mobil shall reserve the right to acquire the additional rights and interests herein provided to be exercised by Mobil or its assigns, its successors and assigns. The following rights and options shall inure to all oil, other liquid hydrocarbons and gas produced and saved from the Assigned Provisions (after deducting any and all other royalty lease obligations thereon):

1. The contract right and option, at any time(s), to purchase all or any of (a) the oil and/or (b) other liquid hydrocarbons (including condensate, distillate and other liquids recovered from the well stream by normal lease-production methods) produced and saved from the Assigned Provisions. The price to be paid therefor shall be Mobil's netted price applicable thereto for the particular field or the average price paid for such oil and/or liquid hydrocarbons of the same grade and gravity by other purchasers in the field, whichever is the greater.

2. The preferential right and option to purchase the gas (the term "gas" to include natural gas, casinghead gas and all other gaseous substances and all constituents thereof in the well stream, whether produced from gas wells or oil wells) produced and saved from the Assigned Provisions on the same terms (or on terms the necessary equivalent thereof) as then obtain with the proposed sale or otherwise disposition of same. You shall notify Mobil in writing of each proposed sale or other disposition of the gas as such in advance as reasonably possible, and Mobil shall have thirty (30) days after receiving written notice of all terms of such sale or other disposition to purchase the gas, or part thereof (or of all terms of any other proposed disposition of the gas, or part thereof) to which you notify you of the election either to exercise or waive its preferential right and option. No contract for the sale or other disposition of the gas, or part thereof, shall ever be made by you until Mobil shall have first either exercised or waived in writing its herein-described preferential right and option with respect to the gas (and no claimed act or expression of waiver shall bind Mobil unless and until specifically expressed in writing). Mobil shall have a continuing separate right and option with respect to each and every proposed sale or other disposition of the gas, or part thereof.

In the event (a) Mobil waives in writing its above-described preferential right and option with respect to a particular proposed sale or other disposition of the gas, or part thereof; (b) you enter into a contract with the other prospective purchaser for the sale or other disposition of the gas, or part thereof; and (c) Mobil herein reserves a right to reacquire a subsurface estate and/or working interest, either by conversion of a reserved overriding royalty interest or by otherwise non-petroleum or other specified time, then each such contract you so enter into shall contain the following provision:

"This contract shall cover only the interest of seller in the properties affected hereby and nothing herein shall ever be construed as constituting or confirming in any way the contract or any leasehold estate or working interest in such properties, or parts thereof, to which Mobil Oil Corporation ("Mobil"), its successors or assigns, may be or hereafter become entitled by reason of the provisions of that certain Form Letter Agreement between Mobil and Texaco Oil & Gas Corporation, dated June 11, 1974, and hereinafter hereby committed, and it reserved to Mobil, its successors and assigns, for its exclusive disposition, that share of gas to which Mobil, its successors and assigns, is or may become entitled by reason of said Form Letter Agreement."

or other similar provision satisfactory to and approved by Mobil in writing prior to your execution of the contract (unless Mobil herein in writing to which inclusion of such provision, in addition, if Mobil so requests, you shall furnish to Mobil a written statement by the gas purchaser, acknowledging and agreeing that such purchaser is hereby



and shall only be attributable to the interest of holder under such contract and that any working interest share of the gas or which Mobil, or its successors or assigns, may be or become entitled by reason of said Payment Letter Agreement is not covered by or limited to such contract, and is to be taken by the purchaser thereunder.

If any lease(s), or all of the assigned Premises be included with other lease(s) to form any unit, pool or joint-operating area with respect to oil, other liquid hydrocarbons and/or gas and a portion of the total production from such unit, pool or joint-operating area (the "unit production") is allocated or attributed to the benefit of the Assigned Premises included therein under the instrument(s) creating or covering the same, then Mobil's preferential purchase rights and options stated hereinafter in this Paragraph 1 (and the subparagraphs thereunder) shall, with respect to such unit production, apply to the portion(s) of total unit production so allocated or attributed to the benefit of the Assigned Premises included in such unit, pool or joint-operating area. Absent specific agreement between the parties to the contrary.

The rights and options of Mobil provided for in this Paragraph 1 (and the subparagraphs thereunder) may be sold, transferred or assigned in whole or in part, and the provisions thereof shall extend to and inure to the benefit of such successors and assigns of Mobil.

6. All gas, including casinghead gas, produced and saved by you from the Assigned Premises shall - at your own risk and before said gas is otherwise disposed of or used for any purpose by you - be run through properly functioning well-head separating equipment (unless the liquid hydrocarbon content thereof is so small as to make installation and retention of such equipment not profitable or unless the gas pressure is such that running the same through such equipment would substantially diminish your ability to sell and deliver the gas against gathering system or pipeline pressure) for the purpose of separating, extracting and saving the liquid and identifiable hydrocarbons recoverable from the gas by the means before the gas is sold, disposed of, or used for any purpose by you.

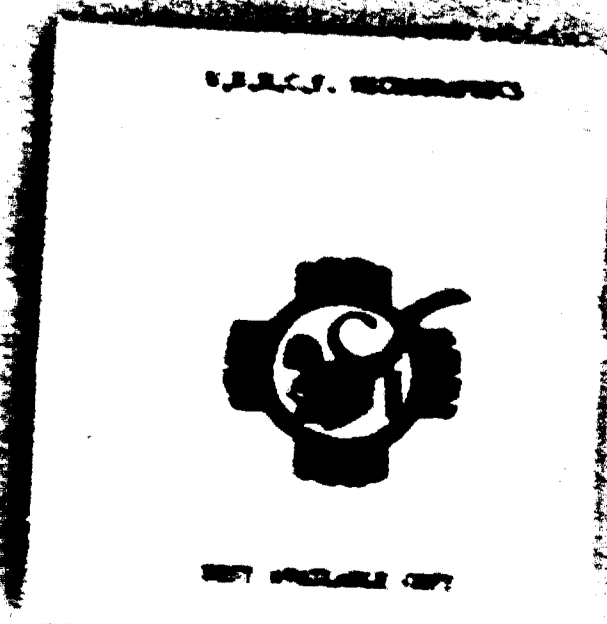
7. Mobil does not warrant, warrant or represent to you, either expressly or impliedly, the present or continuing title or status of any well, gas and/or mineral lease(s) or other instrument(s) described or mentioned in this Agreement or the right of Mobil to commit any such lease(s) or instrument(s) to this Agreement.

8. Should you or any third party (other than a transferee, assignee, abandonment or release to third party) by assignment of title or otherwise, in whole or in part, any lease(s) covered by an assignment from Mobil hereunder, you shall give five (5) days notice to Mobil at least thirty (30) days prior to the date of any such intended release, assignment or abandonment, at the date on which same would terminate. Mobil shall, within fifteen (15) days after receipt of any such notice, notify you whether or not it desires to reacquire a reassignment of the interest(s) which you intend to release, transfer, abandon or allow to terminate. If Mobil so notifies you of its desire to reacquire such reassignment, you shall execute and deliver to Mobil - on or before five (5) days prior to the date on which you intend to release, transfer, abandon or allow said interest(s) to terminate - such reassignment, in form and substance satisfactory to Mobil. Such reassignment shall, however, relieve you (i) of the obligation to plug and abandon - at your own risk and cost - in strict accordance with all applicable laws and all applicable rules, regulations and orders of governmental authorities - any well or wells on the premises covered by such reassignment, or (ii) of any other obligation imposed on you by this Agreement, unless (and then only to the extent that) Mobil specifically agrees in writing to assume such liability.

9. In the event you earn any assignment of an interest in a lease(s) affecting the Assigned Premises pursuant to the terms of this Agreement, and production of oil or gas therefrom shall cease for any period of ninety (90) consecutive days during which period of time no operations are conducted on the assigned Premises in a good-faith effort to re-establish production of oil or gas therefrom, and said lease(s) is then being maintained in force and effect by some means other than production from or operations on the Assigned Premises, you shall promptly tender a reassignment of such interest to Mobil. If Mobil accepts such reassignment, you shall nevertheless be bound by the provisions of the last sentence of Paragraph 9 of this Exhibit "A".

10. Except as may be otherwise specifically set forth in this Agreement, you hereby assume, and agree to comply with, all express and implied covenants and obligations of all leases and assignments thereof, deeds, agreements and other instruments pertaining to lands and depths covered by this Agreement, transfer as such covenants and obligations relate to such lands and depths. Without limiting the generality of the immediately preceding sentence hereof, it is agreed that the event any part or parts of the lands affected by this Agreement are subject to any Unit Agreement, Unit Operating Agreement or other contracts of a similar nature providing for the furnishing of notice or information to the Operator thereof or providing any requirements in connection with non-unit operations on such lands, you shall timely and properly furnish any and all such required notices and information and comply with any and all such requirements in connection with your operations hereunder, all at your own risk and expense.

11. All rights of Mobil under this Agreement shall apply not only to, and during the life of, any lease(s) described as assigned to Mobil hereunder, but to any renewal or extension thereof and to any lease you may acquire within one year from expiration of the prior lease(s), to the extent such renewal, extension or lease covers the assigned Premises.



6. Except as may be otherwise specifically provided for herein, all notices, requests and information authorized or required to be given or made to Nohbi hereunder (including requests for Nohbi's authority to sign and transmit mail) shall be given or made to the representative of Nohbi executing this Agreement or to his designated representative at the address.

All such notices, requests and information to be given or made to you hereunder shall be given or made at your address as shown on the first page of the letter to which this Exhibit "I" is attached. Each party shall have the right, from time to time, to change its address or addresses herein specified by giving written notice thereof to the other party.

7. Neither this agreement nor your rights or obligations hereunder may be transferred or assigned, in whole or in part, without Nohbi's advance written consent. In the event Nohbi should so consent to any such transfer or assignment, you shall nevertheless remain bound by all of the provisions hereof unless Nohbi shall specifically release you therefrom in writing.

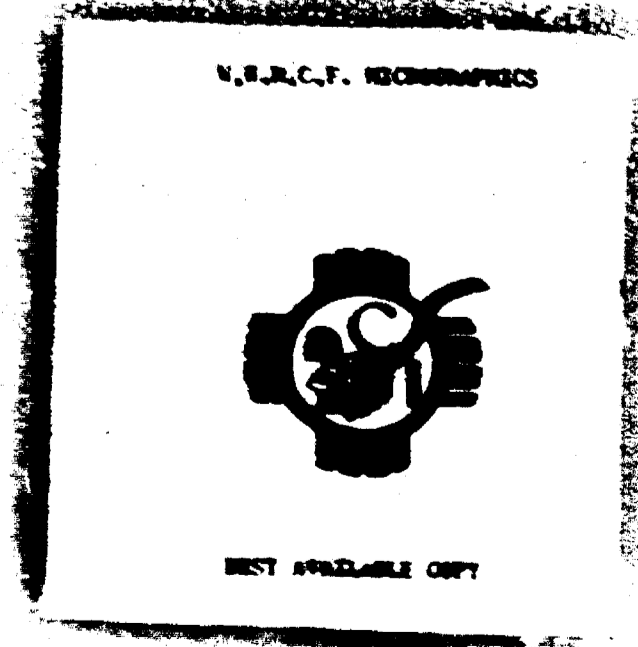


EXHIBIT III
ATTACHED TO AND MADE PART OF FRANCHISE LETTER
AGREEMENT DATED JUNE 11, 1972 BY AND BETWEEN
MELI, INC. COMPANY AND

ACCEPTED FOR AND BY
MODEL FORM OPERATING AGREEMENT - 1956
Non-Federal Lease

OPERATING AGREEMENT
DATED _____ 19____
FOR UNIT AREA IN TOWNSHIP _____ T1S R1E
_____ COUNTY, STATE OF _____

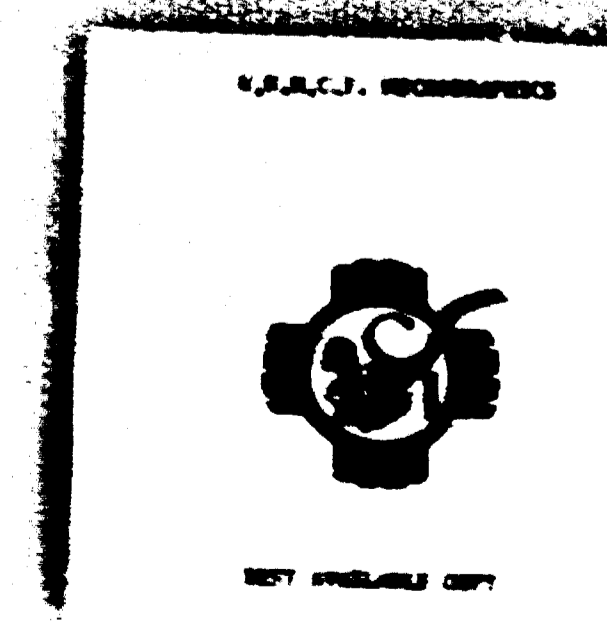
AMERICAN ASSOCIATION OF RETAILERS
OPERATING AGREEMENT - 1956
REVISED BY AMERICAN ASSOCIATION OF RETAILERS
MAY 1972



AAPL FORM 410

TABLE OF CONTENTS

	Page
1. Definitions	1
2. Title Examination, Lease of Lease and Oil and Gas Interests	1
3. Unleased Oil and Gas Interests	2
4. Ownership of Parties	2
5. Operator of Well	2
6. Employees	2
7. Test Well	2
8. Costs and Expenses	2
9. Operator's Lien	4
10. Terms of Agreement	4
11. Limitation on Expenses	4
12. Operations by Lessee That Affect Parties	4
13. Right to Take Production in Kind	4
14. Access to Well Logs	7
15. Drilling Operations	7
16. Abandonment of Wells	7
17. Other Rentals and Short-Well Payments	8
18. Professional Right to Purchase	8
19. Selection of New Operator	8
20. Maintenance of Well Ownership	8
21. Suspension of Operator	8
22. Liability of Parties	8
23. Renewal or Extension of Lease	8
24. Surrender of Lease	10
25. Arrears or Cash Consideration	10
26. Provisions Concerning Taxation	10
27. Insurance	11
28. Claims and Liabilities	11
29. Force Majeure	11
30. Notices	11
31. Other Conditions	11



A.A.L.C.F. FORM 410

If any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual ownership (%) royalty, the party receiving the same shall assume and shall bear all such costs, obligations and shall account for same to the owners thereof out of its share of the working interest production of the Unit Area.

ARTICLE III - THE OPERATOR
The Operator shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workable manner, but it shall have no liability to Operator as the other parties for same, including, but not limited to, operations, receipts such as may result from gas royalties or from lease of the production of the agreement.

ARTICLE IV - EMPLOYEES
The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas in the following location:

and shall thereafter continue the drilling of the well with due diligence.

Unless otherwise specifically provided, Operator shall promptly pay and discharge all taxes and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall share such of the production from such that exceeds the production share from the unit and expense here provided in the Appendix attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for the same. If such costs statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 25th day of the last preceding month, each party shall pay to Operator its proportionate share of such estimated costs within 15 days after such invoice and invoice is received. If any party fails to pay its proportionate share of such estimated costs within said time, the amount due shall have interest at the rate of _____ per annum. Proper adjustment shall be made monthly between advance and actual costs, by the end of each month, and any overpayment shall be returned to the party so overpaid, and no more.

ARTICLE V - FORCE MAJEURE
Should an event occur which is beyond the control of Operator, and which prevents or hinders the performance of its obligations hereunder, Operator shall not be liable therefor, and its obligations hereunder shall be suspended for so long a period as such event continues, but Operator shall use its best efforts to resume performance as soon as possible after such event has ceased.

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 costs 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 costs, together with an invoice for the same. If such costs statement and invoice for the payment in advance of estimated costs shall be submitted on or before the 25th day of the last preceding month, each party shall pay to Operator its proportionate share of such estimated costs within 15 days after such invoice and invoice is received. If any party fails to pay its proportionate share of such estimated costs within said time, the amount due shall have interest at the rate of _____ per annum. Proper adjustment shall be made monthly between advance and actual costs, by the end of each month, and any overpayment shall be returned to the party so overpaid, and no more.



11. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties herein mutually agree upon the drilling of any well on the Utah Area, when the well is drilled, the parties herein shall agree upon the following, to-wit: (a) the location, proposed depth, objectives, formation and the estimated cost of the operation. The parties herein shall also agree upon the location, proposed depth, objectives, formation and the estimated cost of the operation. The parties herein shall also agree upon the location, proposed depth, objectives, formation and the estimated cost of the operation. The parties herein shall also agree upon the location, proposed depth, objectives, formation and the estimated cost of the operation.

If any party desiring such a well elects not to participate in the proposed operation (such party or parties herein referred to as "Non-Consenting Parties"), then in order to be entitled to the benefits of the well, the party or parties desiring the well and such other parties as shall elect to participate in the operation (all such parties herein referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the term period of 180 days for an operation as provided in the operation of the Utah Area, execute and file with the A.A.R.L. a well permit for the proposed operation.

The entire cost and risk of operations shall be borne by the Consenting Parties in the proportion that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall have the benefit of the well in proportion to their respective interests in the well and shall be responsible for the cost of the well in proportion to their respective interests in the well. The Non-Consenting Parties shall not be entitled to participate in the operation of the well and shall not be entitled to the benefits of the well.

(A) 10% of each Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead equipment (including, but not limited to, pump jacks, separators, tanks, storage equipment, and piping) shall be paid by each Non-Consenting Party as a share of the cost of operation of the well commencing with the production and marketing of the well with the Non-Consenting Party's share of the cost of operation of the well. It is hereby 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 when the equipment was acquired.

(B) 10% of that portion of the cost and expense of drilling, reworking, deepening or plugging back, testing and completion, and shuttling out the wellhead equipment (including, but not limited to, pump jacks, separators, tanks, storage equipment, and piping) shall be paid by each Non-Consenting Party as a share of the cost of operation of the well commencing with the production and marketing of the well with the Non-Consenting Party's share of the cost of operation of the well. It is hereby 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 when the equipment was acquired.



A.A.P.L. FORM 410

In the event any party shall fail to make the arrangements necessary to take to field or separator gas or to process the share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to execution at will by the party owing it, but not the obligation, to purchase such oil and gas or well it is valued for the time being, at not less than the market price prevailing in the area, which shall be ascertained by the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be without prejudice to the right of the owner of the production to exercise at any time his right to take to field or separator gas or oil, the share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale to the extent necessary to any other party's share of gas production without first giving such other party 45 days notice of such intended sale.

11. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, well histories, test reports, run tickets and reports of work on hand at the time of such request, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

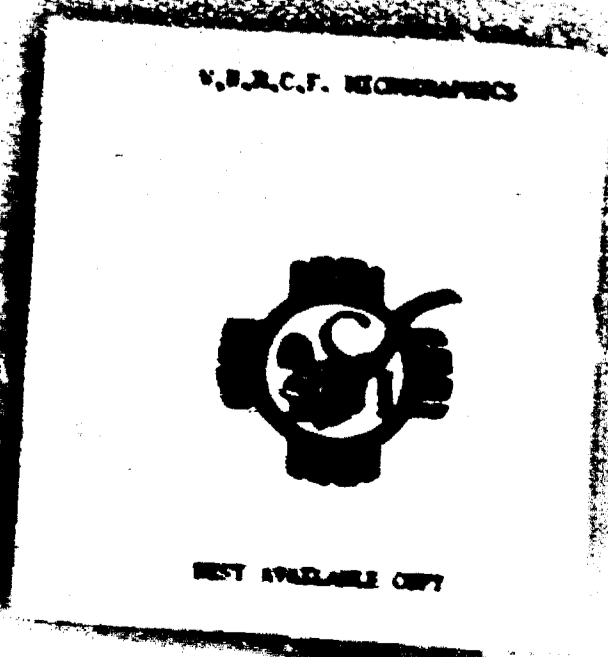
12. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a non-exclusive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may supply its own tools and equipment on the 60/40 basis of well, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

13. ABANDONMENT OF WELLS

If a well, other than a test well which has been drilled as provided in Section 12 hereof, for which the Operating Parties have not been fully reimbursed as herein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties participating therein, if all parties do not agree to the abandonment of any well, then within 60 days after the completion of such well, the parties shall determine the proportionate share of the value of the well's recoverable material and equipment, determined in accordance with the provisions of Section 12, to be returned to the party who abandoned the well, without recovery of expenses or costs in or to the quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the beneficial value of it, but only to the extent of the interest or formation then open to production. The abandonment of a well shall constitute the "drilling" of a well which the well is abandoned. The payments to, and the assignments to, the assignee shall be in a ratio based upon the relationship of their respective percentage of participation in the Unit Area to the percentage of production of production in the Unit Area of all producers. There shall be no requirement of interest in the remaining portion of the Unit Area.

After the abandonment, the assignee shall have no further responsibility, liability, or interest in the operation or production from the well in the interest or formation then open. Upon receipt of the assignment, Operator shall maintain in custody the assigned well for the amount of the non-abandoning parties in the time and charges recommended by the assignee, plus any additional cost and charges which may arise as the result of the necessary operations of the assigned well.



II. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining continuity of ownership in the oil and gas leasehold interests covered by this agreement, and understanding any other provision in the agreement, no party shall sell, mortgage, transfer or make any disposition of its interest in the lease embraced within the Unit Area and its wells, equipment and production unless such disposition meets either:

(1) the entire interest of the party in all lease and equipment and production in the Unit Area;

(2) an equal undivided interest in all lease and equipment and production in the Unit Area.

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

If at any time the interest of any party is divided among and owned by two or more persons, Operator may, in its discretion, require such persons to execute a single transfer or lease with full authority to receive notices, approve expenditures, receive rentals for and approve and pay each party's share of the joint expenses, and so forth generally, and with power to bind, the interests of each party's interest within the scope of the operations authorized by this agreement; however, all such documents shall state that and reserve all interests or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and their shall have the right to receive, respectively, payment of the oil and gas produced.

III. RESIGNATION OF OPERATOR

Operator may resign its duties and obligations as Operator at any time upon written notice of not less than thirty (30) days given to all other parties. In the event all parties to this agreement shall agree by majority vote to discontinue, not to re-enter, a new Operator who shall assume the responsibilities and duties, and have the rights, provided for Operator by this agreement. The resigning Operator shall deliver to its successor all records and information necessary to the fulfillment of the duties and obligations.

IV. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or several. Each party shall be responsible only for its own share, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the term granted by each party to Operator in Section 9 is given to it and may not be denied at any time. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a liability or other partnership or joint venture, or to confer joint liability on any party.

V. RENEWAL OR EXTENSION OF LEASES

If any party acquires a renewal of any oil and gas lease within the Unit Area, such oil and gas lease shall be deemed to be a renewal of the lease, and shall have the same effect as the original lease in the operation of the Unit Area, and shall be subject to the provisions of this agreement as if it were a part of the original lease.

If more than one of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the ratio of their respective ownership of participation in the Unit Area in the operation of the Unit Area at the time of the purchase of such renewal lease. Any renewal lease in which more than one of the parties elect to participate shall not be subject to this agreement.

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

The provisions of this section shall apply to renewal leases whether they are for the entire interest covered by the existing lease or cover only a portion of the term of an existing lease. Any renewal lease taken before the expiration of the term of the lease or taken or renewed for within the 120 months after the expiration of the existing lease shall be subject to the provisions of this agreement, but any lease taken or renewed for more than 120 months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this section.

The provisions of this section shall apply to the oil and gas lease in extension of oil and gas lease. The provisions of this section shall not apply to portions of lease interests outside the Unit Area.



14. SCHEDULE OF LEASES

The lease covered by this agreement, in so far as their relative acreage in the Unit Area, shall not be attributable to the acreage of a particular well.

However, should any party desire to surrender its interest in any lease or to any party thereof, and other parties not agree or consent, the party desiring to surrender shall notify, without expense or implied warranty of title, all of its interest in such lease, in person thereof, and by first-class mail and registered mail which may be mailed therein and any right to production therefrom, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not operations thereon, with respect to the acreage assigned and the operations of any well thereon, and the accepting party shall have no further interest in the lease assigned and its operations and production. The parties herein shall pay to the party making the assignment the reasonable value of the property interest in any well and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of drilling and the estimated cost of operating and maintaining it. If the assignment is in favor of one of the parties, the assigned interest shall be shared by the parties subject to the provisions that the interest of each party in the interest of all parties assigned.

Any assignment or surrender made under this provision shall not release or charge the assignor or surrendering party interest, or if transferred before the assignment, in the income of the Unit Area and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

15. ACREAGE OR CASH CONTRIBUTIONS

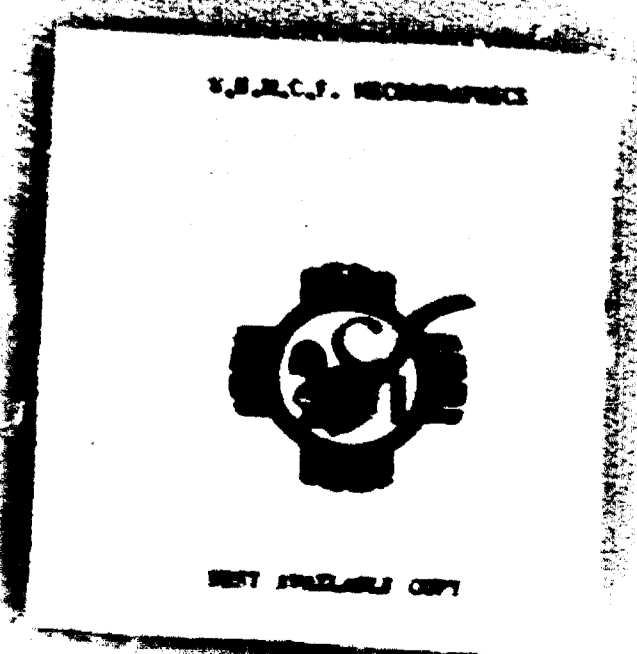
If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied to it within the limit of each drilling or other operation. If the contribution is in the form of acreage, the party to whom the contribution is made shall promptly receive an assignment of the acreage, without expense of title, in full payment of the contribution in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this agreement. Each party shall promptly notify all other parties of all receipt of money contributions it may make in support of any well or any other operation on the Unit Area.

16. PROVISION CONCERNING TAXATION

Each of the parties herein states, under the authority of Section 7513(a) of the Internal Revenue Code of 1954, to be entitled from the application of all of the provisions of Subchapter E of Chapter 1 of Title 26 of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located, or any beneficial interest, provisions similar to those contained in the Subchapter E of the Internal Revenue Code of 1954 shall be applied to the property which is subject to taxation, each of the parties agrees that such election shall be exercised. Each party understands and agrees that the Operator is not to be held liable for the election and for the election with the proper governmental office or agency. If required by the Operator as to do, each party agrees to execute and file in such a election.

Operator shall render to all parties, within 60 days after the date of this agreement, which is to be held for the record for each lease, and it shall pay to all such lease interest (operator's share) thereon. Operator shall hold all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered, assessable by Operator, it may at its discretion present such valuation within the time and manner prescribed by law, and presents the present to a duly designated, unbiased and prime agent to examine the same prior to final determination. When and such present valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty thereon, and the same may also be assessed against the parties, and be paid by them, as certified in Exhibit "C".



AAZL FORM 419

II. INSURANCE

All work while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry an appropriate insurance for the benefit of the State amount of the policy to be notified in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged to work on or for the Utah Mine to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event acceptable Public Liability Insurance is specified in said Exhibit "D", or subsequently revised by approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for operators' fully owned automotive equipment.

III. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Utah Mine, or an alleged cause of action involving this or any mine or oil and gas interests related to the contract, it shall, after proper notice of the suit to the Operator and all other parties,

The defense of liability shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Such may be varied during litigation and with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid for all parties in proportion to their share interests in the Utah Mine. Attorneys other than staff attorneys for the parties, shall be required to furnish completed bills therefor only with the consent of all parties. If outside counsel is employed, their fees and expenses shall be reasonable Utah Mine expenses and shall be paid by Operator and charged to all of the parties in proportion to their share interests in the Utah Mine. This provision of this paragraph shall not be applied in any instance where the law which may result from the suit is treated as an established law rather than a first law under other portions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims incurred by and arising out of operations on the Utah Mine, conducted for the best interests of all parties, shall be handled by Operator and the attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1000) dollars and, if within the same kind of settlement shall be treated as expense to and be paid by all parties in proportion to their share interests in the Utah Mine.

IV. FORCE MAJEURE

If any party is rendered unable, unable or is prevented by some measure 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 facts known with reasonable full particulars concerning (1) the nature, the obligations of the party given to the notice, and (2) the extent of the force majeure, shall be considered binding, but no later than the termination of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

The provisions of this force majeure shall be treated with all reasonable dispatch shall not require the settlement of claims, interests, or other claims affecting the party involved, contrary to the wishes hereof all such difficulties shall be, so, it shall be 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, piracy, riot, insurrection, fire, flood, epidemic, governmental restriction, unavailability of equipment, and any other event, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party concerned hereunder.

V. NOTICES

All notices authorized or required hereunder by the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing to United States and/or Persons Upon Termination, receipt or change present, and addressed to the party to whom the notice is given at the



AAPL FORM 410

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

TEXAS OIL & GAS CORPORATION

ATTEST: _____ BY: _____

OPERATOR

ATTEST: _____

ATTEST: _____

- 11 -



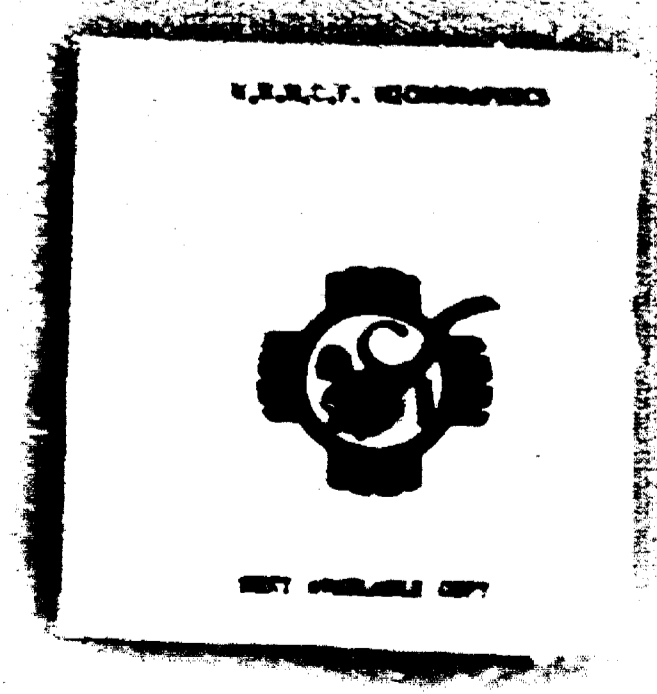
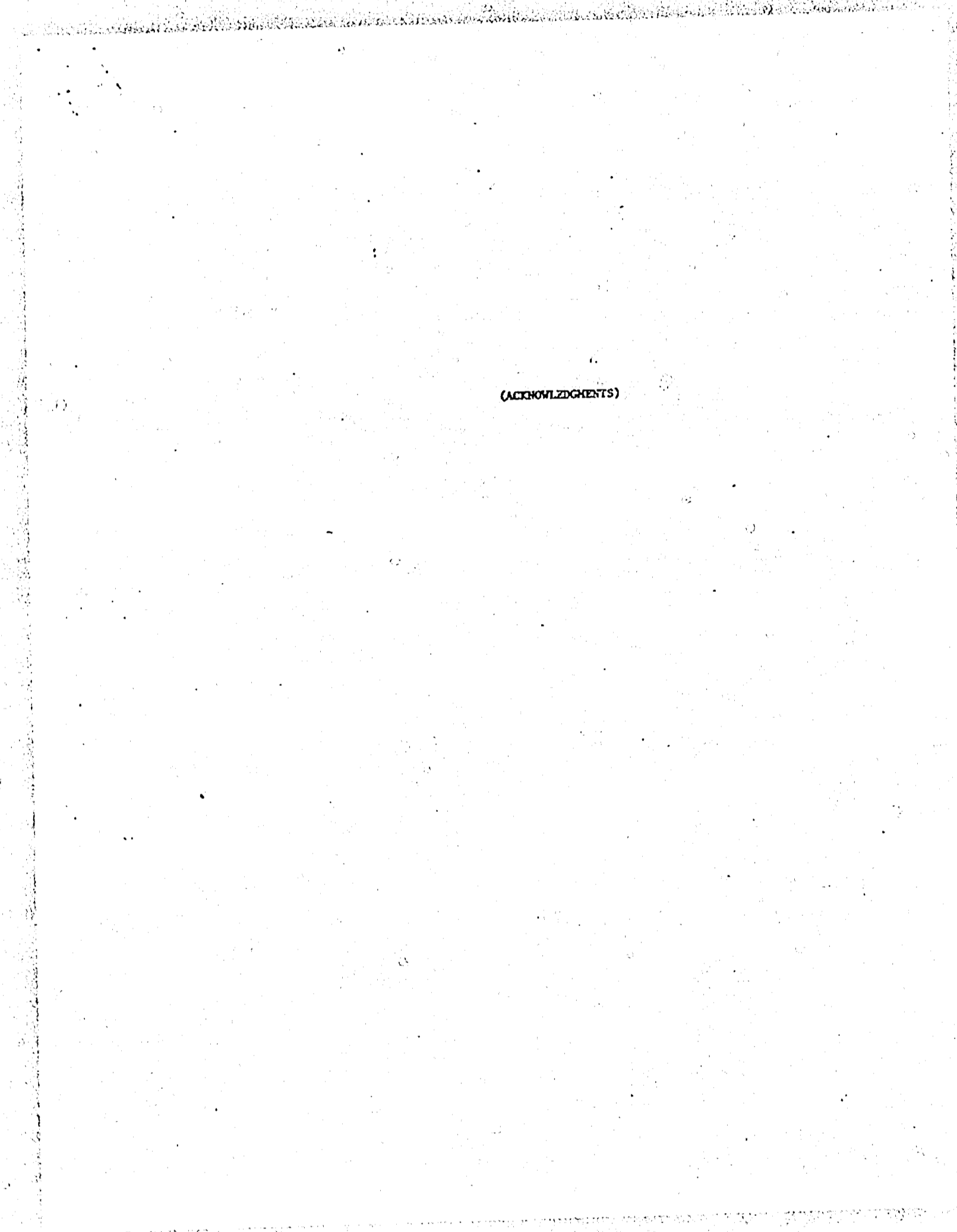


EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT BY AND BETWEEN TEXAS OIL & GAS CORPORATION, OPERATOR, AND MOBIL OIL CORPORATION, NON-OPERATOR, FOLLOWING THE FARMOUT LETTER AGREEMENT BETWEEN MOBIL OIL CORPORATION AND TEXAS OIL & GAS CORPORATION DATED JUNE 11, 1979.

(Prior to execution of this Operating Agreement by the appropriate parties, the provisions of this Exhibit "A" shall be completed in accordance with the terms and provisions of the said captioned Farmout Letter Agreement dated June 11, 1979, with the general guidelines set out below.)

UNIT AREA

East Half Section 6, T-17-S, R-35-E, Lea County, New Mexico

INTERESTS OF THE PARTIES

Ownership in the oil and gas interest and the oil and gas leasehold, personal property, equipment wells and production therefrom, shall be as set forth in said Farmout Letter Agreement, and any reversionary oil and gas interest, or oil and gas leasehold, shall become subject to this agreement when such interest becomes jointly owned by the parties pursuant to the terms of said Farmout Letter Agreement.

LEASES(S) OF THE PARTIES

Lease(s) described in said Farmout Letter Agreement which become(s) jointly owned by the parties pursuant to the terms of said Farmout Letter Agreement and such leases that may be pooled or communitized with said jointly owned lease pursuant to the terms of said Farmout Letter Agreement.

ADDRESSES OF THE PARTIES

Mobil Oil Corporation
Nine Greenway Plaza, Suite 2700
Houston, TX 77046
Attention: Jules Interest Administrator

Texas Oil & Gas Corporation
900 Milco Building
Midland, TX 79701
Attention: Mr. Doyle John Snow



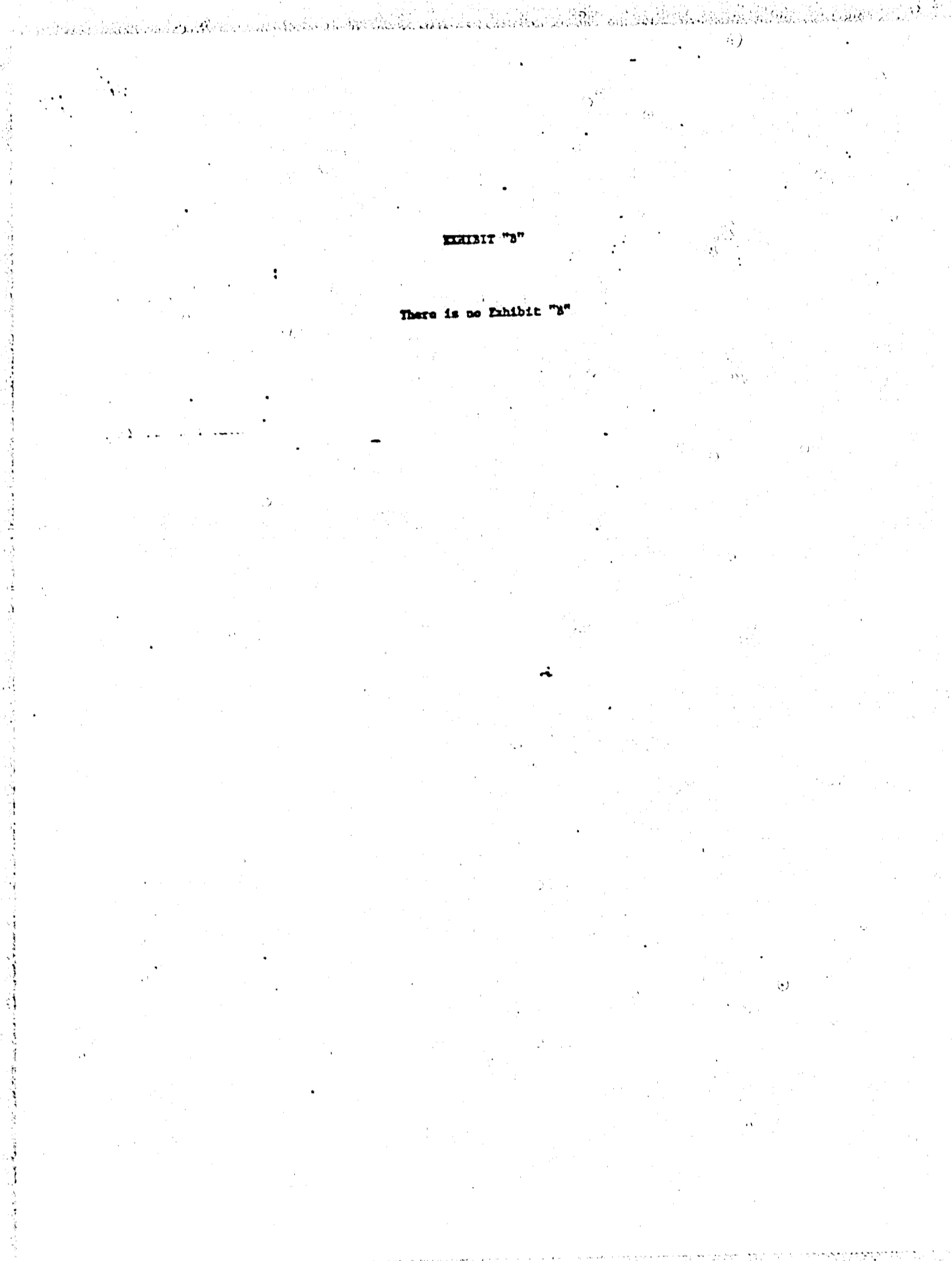


EXHIBIT - C -

Attached to and made a part of the certain Operating Agreement
dated _____ between _____
and _____
Non-Confidential

**ACCOUNTING PROCEDURE
JOINT OPERATIONS**

1. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement in which the Accounting Procedure is effected.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Company" 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-Operator" shall mean the parties to this agreement other than the Operator.

"Partner" shall mean Operator and Non-Operator.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees whose services shall directly contribute to the Joint Property in a field directly related to the Joint Property.

"Technical Employees" shall mean those employees having special and specific engineering, technical, scientific, professional, artistic and other primary functions in Joint Operations in the handling of specific operating equipment and problems for the benefit of the Joint Property.

"Management Personnel" shall mean those employees whose primary function is the management of the Joint Property.

"Operable Interest" shall mean the interest in the Joint Property as defined in the General Provisions of the Operating Agreement.

2. Expenses and Billing

Operator shall bill Non-Operator on or before the 15th day of each month for their proportionate share of the Joint Property for the preceding month. Such bills will be accompanied by statements which identify the expenses incurred, the nature and amount of the same, and the method of payment. The bills shall be accompanied by a statement of the Joint Property and a statement of the Joint Operations. The bills shall be accompanied by a statement of the Joint Property and a statement of the Joint Operations. The bills shall be accompanied by a statement of the Joint Property and a statement of the Joint Operations.

3. Advances and Payments by Non-Operator

When advances are provided for in the agreement, the Operator may require the Non-Operator to advance their share of estimated cash needs for the preceding month's operations. Operator shall adjust each monthly billing to reflect advances received from the Non-Operator.

Each Non-Operator shall pay the proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the amount of such bills shall be immediately due and payable to the Operator. The Operator shall have the right to suspend operations until such time as payment is received. The Operator shall have the right to suspend operations until such time as payment is received. The Operator shall have the right to suspend operations until such time as payment is received.

4. Adjustments

Payment of any such bills shall not constitute the right of any Non-Operator to protest or question the amount thereof. Payment of such bills shall not constitute the right of any Non-Operator to protest or question the amount thereof. Payment of such bills shall not constitute the right of any Non-Operator to protest or question the amount thereof.

5. Audit

A Non-Operator may examine the books and records of the Operator and the Joint Property, and have the right to audit the Operator's accounts and records relating to the Joint Property at any reasonable time within the territory of the Operator. The Non-Operator may examine the books and records of the Operator and the Joint Property, and have the right to audit the Operator's accounts and records relating to the Joint Property at any reasonable time within the territory of the Operator.

6. Agreement by Non-Operator

Where an agreement or other agreement of the Parties or Non-Operator is expressly provided under other sections of the Accounting Procedure and if the agreement in which the Accounting Procedure is effected contains no contrary provisions, the Operator, Operator, and Non-Operator of the Operating Agreement, and the agreement or approval of a majority in interest of the Non-Operator may be conducted as set forth herein.

- 1 -



II. JOINT OPERATIONS

Operator shall charge the Joint Account with the following items:

1. Salaries and Expenses
Salaries and expenses paid by Operator for the Joint Operations.

A. (1) Salaries and wages of Operator's full employees directly employed on the Joint Property in the conduct of Joint Operations.
(2) Salaries and wages of Operator's full employees directly employed on the Joint Property if such charges are included in the Operator's cost.

B. Operator's cost of health, pension, sickness and disability benefits and other employee benefits shall be allocated to the Joint Account under Paragraph 2A of this Section. Such cost shall be charged to the Joint Account under Paragraph 2A of this Section. If the Operator's cost of health and pension benefits is the Joint Account under Paragraph 2A of this Section, the percentage assessment to be made on the Operator's cost shall be as follows:

C. Depreciation and maintenance costs incurred by Operator for the Joint Property shall be charged to the Joint Account under Paragraph 2A and 2B of this Section.

D. Property Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section.

2. Retirement Benefits
Operator's cost of established plans for employees' group life insurance, hospitalization, pension, etc., shall be charged to the Joint Account under Paragraphs 2A and 2B of this Section. If such cost is chargeable to the Joint Account under Paragraph 2A of this Section, the percentage assessment to be made on the Operator's cost shall be as follows:

3. Material
Material purchased or furnished to Operator for use on the Joint Property as provided under Section 10, this Agreement shall be charged to the Joint Property as may be required for immediate use and in accordance with the terms of the purchase order. The maintenance of such stock shall be avoided.

4. 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 premises, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest public road, and the cost of such transportation shall be borne by the Operator. If the distance to the nearest public road is greater than the distance to the Joint Property, the cost of such transportation shall be borne by the Operator.

B. If Material is moved to Operator's warehouse of other storage plant, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest public road, and the cost of such transportation shall be borne by the Operator. If the distance to the nearest public road is greater than the distance to the Joint Property, the cost of such transportation shall be borne by the Operator.

C. In the application of Paragraphs A and B above, there shall be no limitation of total gross tonnage of material at any one time.

5. Service
The cost of janitor services, equipment and utilities provided by public service, except services excluded by Paragraph 4 of Section 10 and Paragraph 1, of Section 10. The cost of professional consulting services and other services of technical personnel employed on the Joint Property shall be charged to the Joint Account unless previously agreed to by the Parties.

6. Equipment and Facilities Furnished by Operator
Operator shall charge the Joint Account for the use of Operator's owned equipment and facilities in those operations with respect to the Joint Property. Such items shall include cost of maintenance, repairs, oil, operating expenses, insurance, taxes, depreciation, and interest on investment in a fixed asset and 10% per annum. Such items shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

7. Damages and Losses to Joint Property
If and when necessary for the repair or replacement of Joint Property under necessary because of damage 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 the necessary sums of money to the Parties to be used in a reasonable manner for the repair or replacement of such property.

8. Legal Expenses
Expenses of legal, accounting and auditing fees incurred in the conduct of the Joint Operations under the Agreement of this Agreement shall be charged to the Joint Property except the cost of legal fees incurred by Operator. Such cost shall be charged to the Joint Property as may be required for immediate use and in accordance with the terms of the purchase order. The maintenance of such stock shall be avoided.

- 2 -



16. Taxes
All taxes of every kind and every assessed or levied upon in connection with the Joint Property, the operations, or the production operations, and which have been paid by the Operator for the benefit of the Parties.

17. Insurance
The insurance and the insurance required to be carried by the Joint Operator for the production of the Petroleum in the Joint Property shall be carried in a form to which the Operator may, at its option, elect to contribute. The Operator, however, shall not be liable for the cost of such insurance unless the cost is included in the well-cost program and in the event the Operator shall include a charge as Operator and not as insured party.

18. Other Responsibilities
All other responsibilities not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the operations.

III. OVERHEAD

A. Overhead - Drilling and Production Operations
All responsibilities for administrative, supervision, office services and workshopping costs Operator shall charge drilling and production operations on a flat fee basis.

1. Flat Fee Basis Paragraph A or Paragraph B, Paragraph B.
The flat fee basis shall be in two columns and columns of all other items which are not included in the flat fee basis shall be included in the well-cost program. The flat fee basis shall be included in the well-cost program and in the event the Operator shall include a charge as Operator and not as insured party.

2. The salaries, wages and Personal Expenses of Personnel employed on the Joint Property shall be included in the well-cost program and in the event the Operator shall include a charge as Operator and not as insured party.

B. Overhead - Field Site Base
(1) Operator shall charge the Joint Operator at the following rates per well per month:
Drilling Well Base \$10,000
Production Well Base \$5,000

(2) Application of Overhead - These base rates shall be as follows:
(a) Drilling Well Base
(1) Operator shall charge the Joint Operator at the following rates per well per month:
Drilling Well Base \$10,000
Production Well Base \$5,000

(b) Production Well Base
(1) Operator shall charge the Joint Operator at the following rates per well per month:
Production Well Base \$5,000

(2) Each extra completion in a multi-completion well in which production is not completed a separate well shall be considered as a separate well for the purpose of this section.

(3) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

(4) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

(5) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

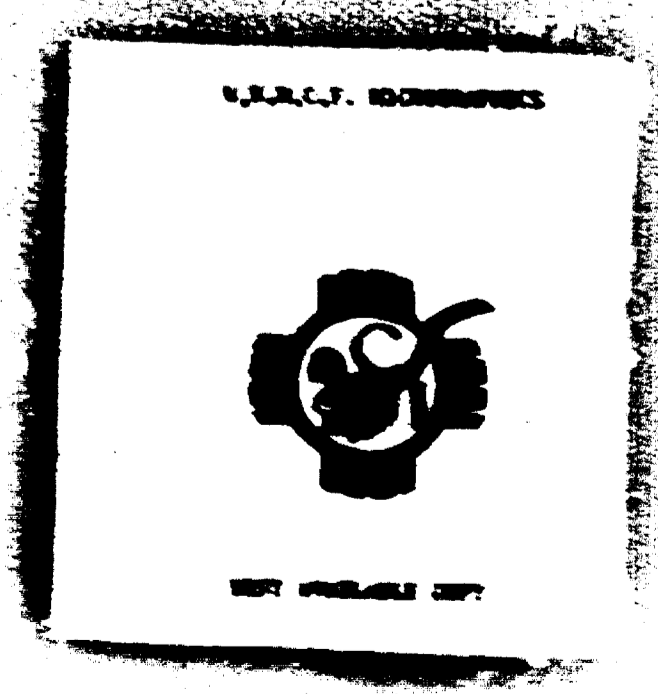
(6) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

(7) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

(8) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

(9) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.

(10) In the event of a well which is not completed a separate well shall be considered as a separate well for the purpose of this section.



(3) of Article 10 (10) of current law or determined by Paragraph 16 of the contract. If Material was originally charged to the Joint Account as good and Material is severely damaged (10%) of current law price.

C. Cost of Material (Condition C and D)

(1) Condition C
Material which is not in good and serviceable condition and not suitable for its original function and after remanufacturing shall be priced at 100 percent (100%) of current law price as determined by Paragraph 16 of the Contract. The cost of remanufacturing shall be charged to the receiving property, joint account. This cost will be remanufacturing for the entire Condition C stock.

(2) Condition D
All other Material, including stock, shall be priced at a value commensurate with its use as a remanufacturing job. Material no longer suitable for its original purpose but usable for some other purpose shall be priced at a value commensurate with that of new material and for each other purpose, Operator and Joint Account of Condition D Material under procedures normally utilized by the Operator without prior approval of Joint-Operations.

D. Current Material

Material which is serviceable and usable for its original function but obsolete and/or value of such Material is such that it will not 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) Landings and unloading fees may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight for all landing goods operations, to be in addition and including other charges, when actual handling cost of such landing goods are available under provisions of Paragraph 1 of Section 15.

(2) Material handling operation costs shall be charged at applicable percentage of the current base-load rates price of new Material.

F. Freight Price

Whenever Material is not readily deliverable as published or listed prices because of national emergencies, strikes or other unusual events which the Operator has approved 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 meeting the Joint-Operations' needs. Operator's actual cost shall be determined by the Operator and shall be subject to the Operator's audit. Such cost-Operator shall have the right to an audit and settling Operator shall use data after settling same with Operator, or furnish to Joint Account or part of the share of such Material available to be used and available to Operator.

G. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. Use of defective Material, result shall not be deemed to the Joint Account until adjustment has been received by Operator from the manufacturer or their agent.

V. INVENTORIES

The Operator shall maintain detailed records of Condition B Material.

A. Periodic Inventories, Notice and Representations

At regular intervals, Inventories shall be taken by Operator of the Joint Account Condition B Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to be held on the Joint-Operations or as represented from and inventory is taken. Failure of Joint-Operations to be represented in an inventory shall not constitute an inventory taken by Operator.

B. Representation and Adjustment of Inventory

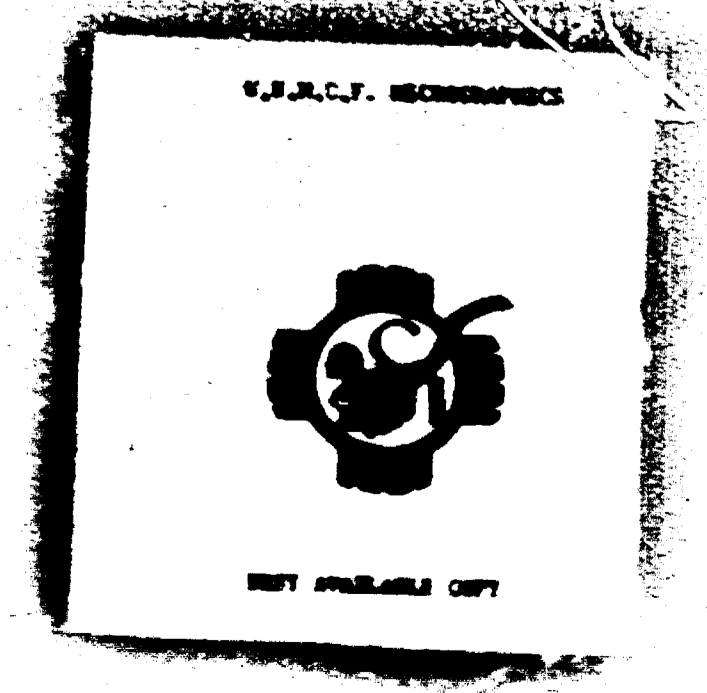
Representation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Joint-Operations with the results returned to the Office of the Inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held responsible only for shortages due to lack of reasonable diligence.

C. Special Inventories

Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party making a special inventory to make a list of the property and the number of interest taken there. In such cases, both the seller and the purchaser shall be governed by such inventory.

D. Expenses of Conducting Periodic Inventories

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



REVISION NO. _____
ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT
BY AND BETWEEN
DATE _____ OPERATOR, AND
NON-OPERATOR.

INSURANCE

Operator shall carry Workmen's Compensation and Employer's Liability Insurance in full compliance with the Workmen's Compensation laws of the particular state where the work is being performed.

Operator shall require all contractors engaged in operations on the contract to carry Workmen's Compensation and Employer's Liability Insurance in full compliance with the Workmen's Compensation laws of the state where the work is being performed and to maintain such other Insurance as Operator may require.

Operator shall not be obligated to provide any other Insurance for the total amount of the parties herein. Any party may, at its own expense, procure such other Insurance as it deems proper to protect itself against the claims, losses, damages, or destruction arising out of operations of the contract premises.



EXHIBIT "A"
EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

1. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to, the following: recruitment, upgrading, promotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.
2. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
3. The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitment under Section 302 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
5. The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
6. In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended, in whole or in part, and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and penalties levied as provided in Executive Order 11246 of September 24, 1965, or by rules, regulations or orders of the Secretary of Labor or as otherwise provided by law.



SUPPLEMENT "A"
CERTIFICATION OF NON-DISCRIMINATED FACILITIES

Operator agrees Non-Operator that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location under its control where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintenance of segregated facilities for its employees in providing its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 12846 of September 24, 1950.

Operator further understands and agrees that a breach of the agreement herein contained subjects it to the provisions of the order of the Civil Rights Commission of the Secretary of Labor dated May 21, 1950, and the provisions of the equal opportunity clause contained in contracts between the United States of America and Non-Operators.

Wherever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.

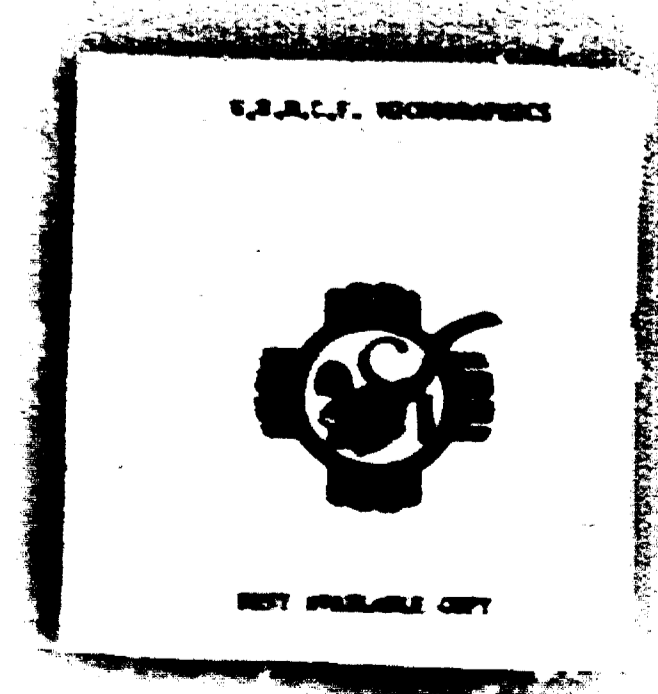


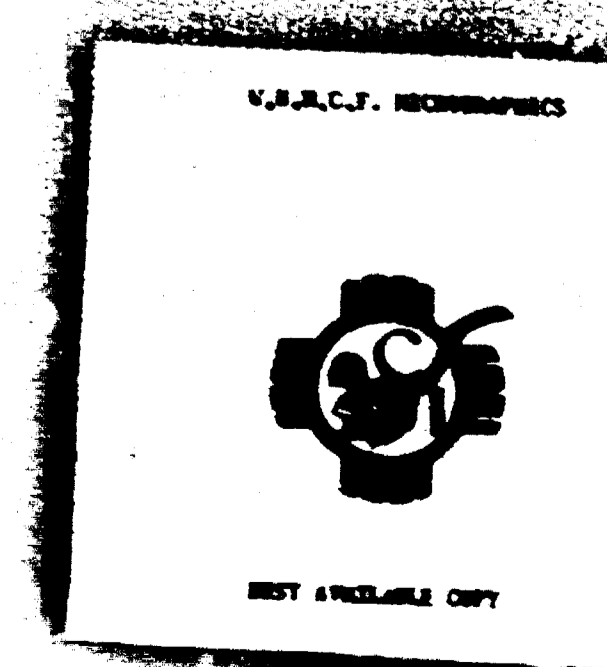
EXHIBIT "A"
ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT
DATED _____ BETWEEN _____

GAS BALANCING AGREEMENT

1. **Intent that Parties Share Total Production.** It is the intent and aim of this Gas Balancing Agreement that during the productive life of the Unit Area, the parties shall have had the opportunity to share in the total cumulative production from the Unit Area in proportion to their Unit Area ownership. This Agreement is made to promote that purpose and to protect each Party against any other Party receiving more than its proportionate share of the total cumulative production. It shall never be construed to effect the unjust enrichment of any Party to the detriment of the others or to deprive any Party of its rights to its proportionate share of the total cumulative production.

2. **Relative Requirements of Purchasers.** The Parties herein recognize that the pipeline requirements of the respective purchasers or other users of Gas produced from the Unit Area will vary from time to time and may not be consistent except over short periods of time. It is the intent of the Parties herein that the allocation of liquid substances shall not be affected by the respective pipeline requirements for Gas. Accordingly, the total well production shall be separated into liquids and gas. The liquids shall be all substances in liquid form when separated by primary separation facilities. The gas shall be all substances remaining in gaseous form after the substances in liquid form have been separated by primary separation facilities, and, if applicable, after solids such as sulphur and other substances have been removed to render the Gas marketable.

3. **Parties not Selling Gas.** In the event any of the Parties herein desire to market their share of Gas production from the Unit Area prior to the time that other Parties are willing or able to market their share of Gas production, the Unit Area shall nevertheless be placed on production, and such marketing Party's share of Gas shall be considered as stored in the reservoir and not produced.

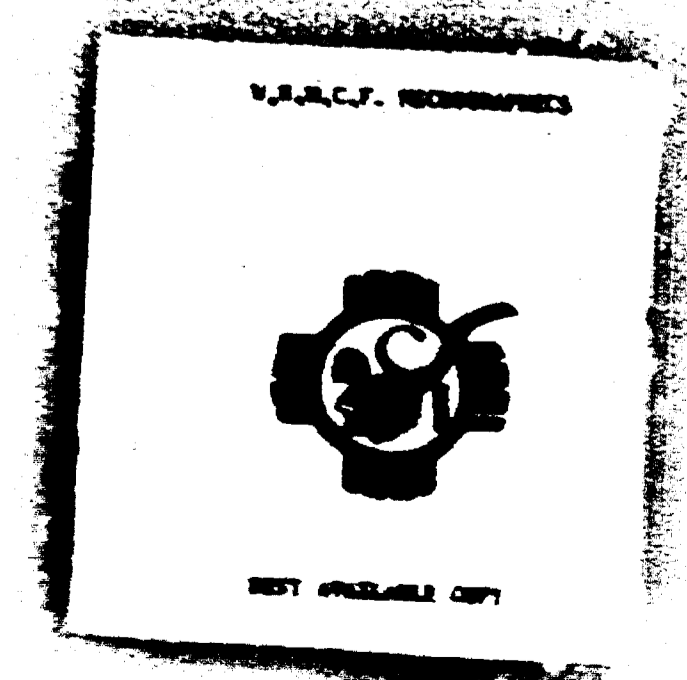


4. Interest to Balance Gas Taken. In the event there is more than one purchaser or more than one disposition of the Gas produced from the Unit Area, each Party, to the extent possible under the Gas sales contract or other disposition arrangement, agrees to cooperate in an endeavor to maintain, as near as possible, the balance between the Gas allocated to its interest by virtue of this agreement and the actual deliveries of Gas for its account.

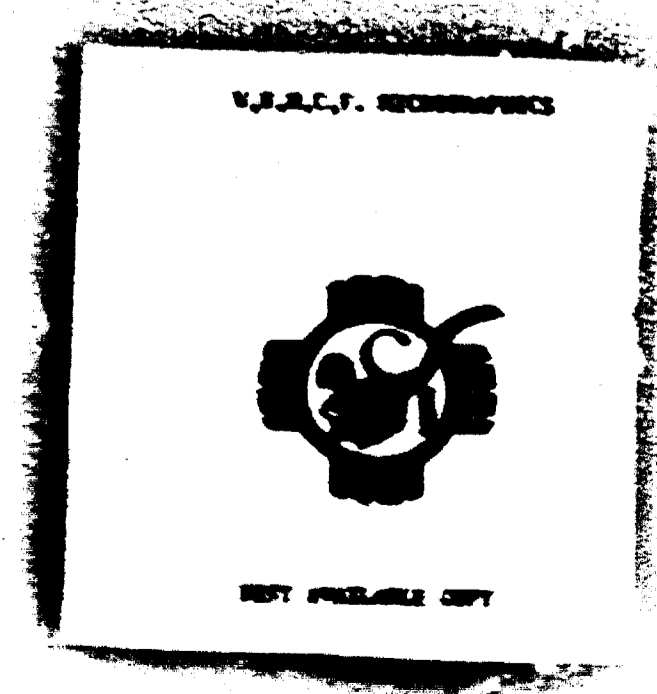
5. "Take Or" Gas. Therefore, deliveries of Gas in excess of or less than any Party's proportionate ownership of Gas production shall be adjusted out of future production, provided that in no event will a Party having taken more Gas be required to reduce the volume of Gas such Party is entitled to take during any calendar month to less than 10% of said Party's interest in current production.

6. Definition with "Production."
(a) In the definition of Gas reserves from the Unit Area, there is a Party (for purposes of this article called "over-produced Party") who has delivered a quantity of Gas in excess of such Party's proportionate ownership of production, such over-produced Party, unless otherwise agreed to by the Parties involved, shall remit to the Operator for the account of the Party or Parties having taken less Gas than their proportionate ownership in Gas production (for purposes of this article called "under-produced Party"), the "value" (less appropriate deduction for taxes and royalty which have been paid with respect to such production), of the gas that has been over-produced by such Party, in the end that such Party shall receive credit for its proportionate ownership of Gas produced.

(b) For the purposes of this section, "value" shall be the price the over-produced Party actually received or would have received under the terms of a then in contract effective at the time of the production of such Gas, multiplied by the volume over-produced; but in any event not to exceed more than was actually received for all of the Gas over-produced; provided that if any portion of such price is being collected subject to refund upon orders of the Federal Power Commission, unless the under-produced Party furnishes a corporate indemnity agreement to hold the over-produced Party harmless from financial loss due to action by the Federal Power Commission.



That that portion of the price subject to refund shall be withheld by the over-producing Party and shall not be paid until and unless such refundable portion of said price is ultimately approved by the Federal Power Commission. All such payments shall be made by the over-producing Parties to the Operator, who shall be charged with the duty of maintaining a record of over- and under-production volumes for each Party's account, and of distributing the final settlement funds received proportionately to each under-producing Party based on its proportion of the total under-production, but the Operator shall have no liability with respect to the correctness of the funds received by it from the over-producing Parties for distribution, being entitled to rely on such statements as may be furnished by such over-producing Party as to the price and the amount recovered for the over-production.



A.A.P.L. FORM 610
MODEL FORM OPERATING AGREEMENT—1956
Non-Federal Lands

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXAMINEE NO. 5
CASE NO. 8524
Submitted by TXO
Hearing Date 7-11-79

OPERATING AGREEMENT

DATED

July 5 1979

FOR UNIT AREA IN TOWNSHIP J2S RANGE 35E

1E COUNTY, STATE OF NEW MEXICO

AMERICAN ASSOCIATION OF PETROLEUM LANDOWNERS
APPROVED FORM A.A.P.L. NO. 610
MAY BE OBTAINED DIRECTLY FROM THE PUBLISHER
AMERICAN ASSOCIATION OF PETROLEUM LANDOWNERS, 500 W. WASH. ST., DALLAS, TEXAS 75201



TABLE OF CONTENTS

Section Number	Title	Page
1.	Definitions	1
2.	Title Examination, Loss of Lease and Oil and Gas Interests	1
3.	Unleased Oil and Gas Interests	2
4.	Interests of Parties	2
5.	Operator of Unit	3
6.	Employees	3
7.	Test Well	3
8.	Costs and Expenses	3
9.	Operator's Lien	3
10.	Term of Agreement	4
11.	Limitation on Expenditures	4
12.	Operations by Less Than All Parties	5
13.	Right to Take Production in Kind	6
14.	Access to Unit Area	7
15.	Drilling Contracts	7
16.	Abandonment of Well	7
17.	Delay Rentals and Shut-in Well Payments	8
18.	Preferential Right to Purchase	8
19.	Selection of New Operator	8
20.	Maintenance of Unit Ownership	9
21.	Resignation of Operator	9
22.	Liability of Parties	9
23.	Renewal or Extension of Lease	9
24.	Surrender of Lease	10
25.	Apportionment of Costs	10
26.	Provision Concerning Taxation	10
27.	Insurance	11
28.	Claims and Expenses	11
29.	Force Majeure	11
30.	Notices	11
31.	Other Conditions	12



OPERATING AGREEMENT

THIS AGREEMENT, entered into this _____ day of _____ 19____ between
TEXAS OIL & GAS CORP.

hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

- (1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.
- (2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.
- (3) The term "oil and gas" shall include oil, gas, condensate, gas, gas condensate, and all other fluid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.
- (4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.
- (5) The term "Unit Area" shall refer to and include 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".
- (6) 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 Unit Area or as fixed by express agreement of the parties.
- (7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.
- (8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property required for use in the Unit Area.

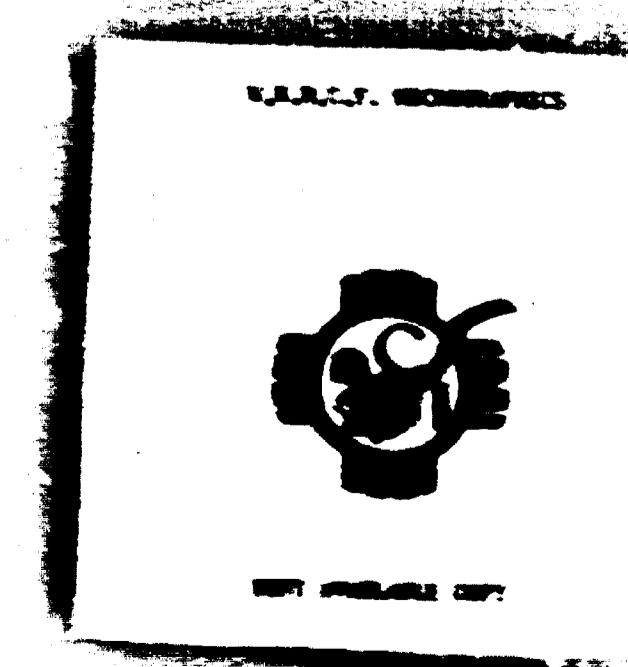
2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

Each party hereto shall furnish Operator with certified or photostatic copies of all leases, title papers and opinions and with all abstracts in its possession covering a proposed drillsite and drilling unit.

No well shall be drilled in the Unit Area until the title to the drilling tract has been examined and approved by Operator's attorney, or until the title has been accepted by all the parties who are to participate in the drilling of the well. Each title opinion shall contain a list of fee owners and their interests, shall state the attorney's opinion concerning validity of their interests, and shall contain an enumeration and description of title defects, if any, a report upon mortgages, taxes, pending suits and judgments, and unleased oil and gas leases, and a list of requirements, if any, upon which the operator's approval of title to the lease or oil and gas interest is contingent. The title opinions shall also contain a specific description of the oil and gas lease being subjected to this contract, with a statement of its form, term amount of royalty status of delay rental payments, and unusual drilling obligations and of excess royalty, oil payments and other special burdens.

Costs of title examination shall be borne proportionately by all working interest owners who are to participate in the drilling of the well. However, no charge shall be made to the Joint Account for title examination services performed by Operator's staff attorneys.



A.A.P.L. FORM 410

Abstracts and title reports, with payments and other special burdens, a copy of each title opinion of each supplemental opinion, and of all final opinions, shall be sent promptly to each party. The opinion of the examining attorney concerning the validity of the title to each oil and gas interest and the amount of interest covered thereby shall be binding and conclusive on the parties, but the responsibility of leaser as to primary term, royalty provisions, drilling obligations, and special burdens, shall be a matter for approval and acceptance by an authorized representative of each party.

All title examinations shall be made, and title reports prepared, within a period of _____ days after the submission of abstracts and title papers. Each party shall pay _____ and each shall have a period of _____ days from receipt of title report for this purpose. If the title to any lease, or oil and gas interest, is finally rejected by the examining attorney, all parties shall then be asked to state in writing whether they will waive the title defects and accept the lease or interests, or whether they will stand on the attorney's opinion. If one or more parties refuse to waive title defects, this agreement shall, in that case, be terminated and abandoned, and all abstracts and title papers shall be returned to their sender. If all titles are approved by the examining attorney, or accepted by all parties, and if all leases are accepted as to primary term, royalty provisions, drilling obligations and special burdens, all subsequent provisions of this agreement shall become operative immediately and the parties shall proceed to their performance as they see best to be stated.

B. Failure of Title

After all titles are approved or accepted, any defects of title that may develop shall be the joint responsibility of all parties and, if a title loss occurs, it shall be the loss of all parties, with each bearing its proportionate part of the loss and of any liabilities incurred in the loss. If such a loss occurs, there shall be no change in, or adjustment of, the interests of the parties to the remaining portion of the Unit Area.

C. Loss of Leases For Other Than Title Failure

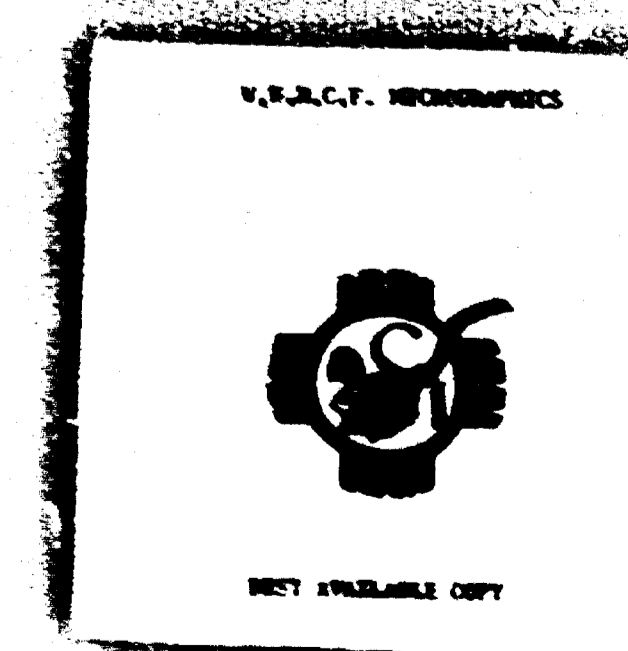
If any lease or interest subject to this agreement be lost through failure to develop or become express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, the loss shall not be considered a failure of title and all such leases shall be joint leases and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the remaining portion of the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns unleased oil and gas interest in the Unit Area that interest shall be included for the purpose of this agreement as if it were a leased interest under the terms of all and any title attached as Exhibit "B" and for the primary term therein stated. As to any unleased interest, the owner shall receive royalty on production as provided in the terms of all and any title attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to leases, to the extent that it owns any lease interest.

4. INTERESTS OF PARTIES

For the purpose of this agreement as between the parties hereto, the royalty interest is and shall be treated as 1/8th of 8/8ths, and the working interest of the parties hereto shall be treated as 7/8ths of 8/8ths, and all oil and gas, including gas, oil, gas, and condensates attributable to the working interest covered by this agreement shall be shared in the proportions shown in Exhibit "A".



It is understood and agreed that all charges to the joint account, except as hereinafter specifically provided, shall be made and paid by the parties hereto in accordance with the interests of participation in the working interest as set forth in Exhibit "A".

It is understood by and between the parties hereto that if any of them is obligated to pay any lesser royalties at a rate in excess of the usual 1/8th of 8/8ths royalty or to pay to anyone any overriding royalty, payments out of production, net profit obligations, carried interests, or any other outstanding obligations now existing or hereafter coming into existence against any of the parties hereto, or their respective interests, or with respect to the respective interests in the production from the above described land, all such royalties, obligations and payments by which any of the parties hereto is bound or may hereafter become bound shall remain the obligation of the respective party or parties, as the case may be, and shall be paid and satisfied in each instance, unless otherwise paid and satisfied, out of the interest of the obligated party in the 7/8ths of 8/8ths working interest set forth above.

Title to the leases and mineral interests contributed by each of the parties to this agreement is to remain in each of the respective parties except as herein specifically provided.

and shall thereafter continue the drilling of the well with due diligence to

unless a well or other practically impenetrable substance is encountered at a lesser depth unless all parties agree to complete the well at a lesser depth.

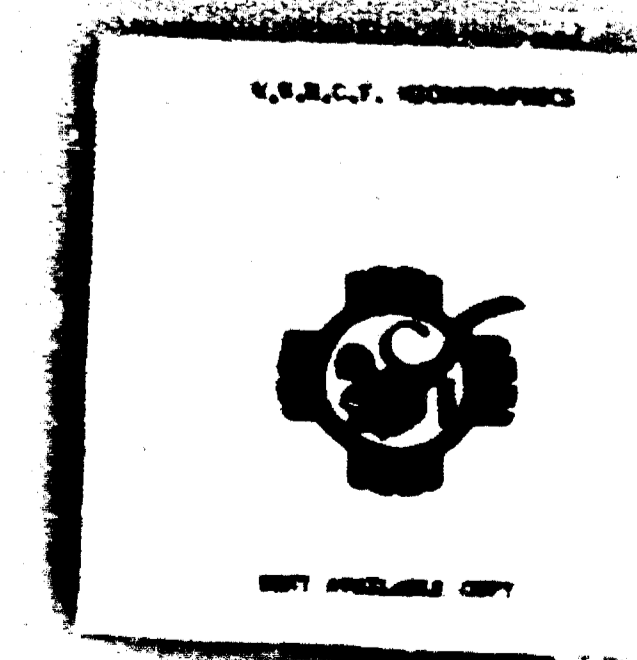
Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required 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, it shall first secure the consent of all parties to the plugging and abandonment of the well as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of ten percent (10%) per annum. Proper adjustment shall be made monthly between advance and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.



9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense as such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds according to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

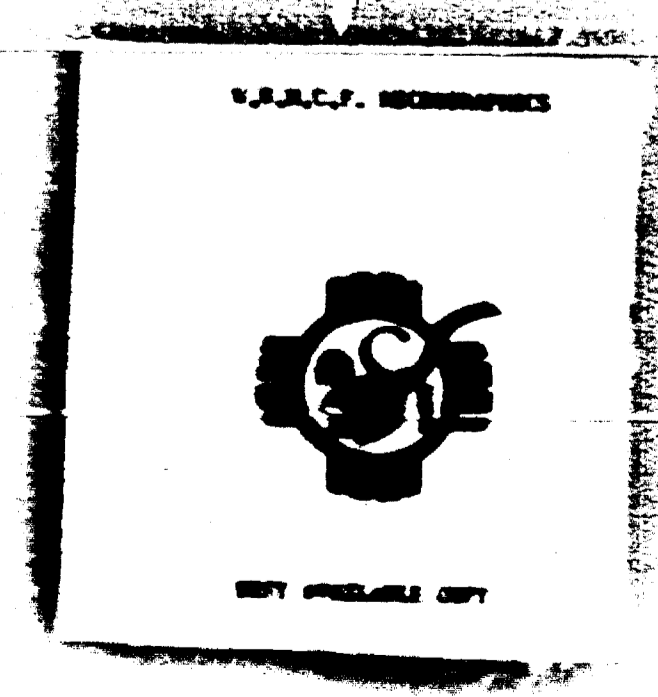
10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement are jointly owned, insofar as they cover land within the Unit Area, by the parties hereto, their heirs, successors and assigns. 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.

Notwithstanding to whom an oil and gas lease is assigned, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of sixty (60) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary toolbars; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary toolbars; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of SEVENTEEN THOUSAND AND NO/100 Dollars (\$17,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$10,000.00.



12. OPERATIONS BY LESS THAN ALL PARTIES

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7 or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may 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 (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) to advise the parties giving the notice in writing which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportion that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the non-consenting 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 at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section 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, 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 section, 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, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or secured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, 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 each Non-Consenting Party had it participated in the well from the beginning of the operation; and

(B) 75% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 23 and 24, 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.



In the case of any reworking, plugging back or deeper drilling operations, the Concessing 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 Concessing Parties shall account for all such equipment to the owners thereof, with such party receiving its proportionate part in kind or in value.

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Concessing Parties shall furnish, with Non-Concessing 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, reworking, and equipping the well for production; or, at its option, the operating parties, in lieu of an itemized statement of such costs of operations, may submit a detailed statement of monthly bills. With thirty (30) days thereafter, during the term the Concessing Parties are being reimbursed as provided above, the Concessing Parties shall furnish the Non-Concessing 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 and the proceeds therefrom. Any amount realized from the sale or other disposition of equipment necessary during the preceding month. 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-Concessing Party before participation therein shall be credited against the total interest cost of the work done and of the equipment purchased or otherwise obtained during the period of such Non-Concessing Party shall revert to it as here provided; if there is a credit balance it shall be paid to such Non-Concessing Party.

It is understood that the Concessing Parties receive from a Non-Concessing Party's relinquishment interest the amounts provided for above, the relinquished interests of such Non-Concessing Party shall immediately revert to it and from and after such reversion such Non-Concessing Party shall own the entire interest in such well, the operating rights and working interest therein, the interests and equipment in or pertaining thereto, and the production therefrom as such Non-Concessing Party would have owned had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Concessing Party shall be deemed to have acquired the well and shall pay its proportionate part of the further costs of the operation of said well as provided herein with the terms of this agreement and the accounting procedure schedule, Exhibit "C", attached hereto.

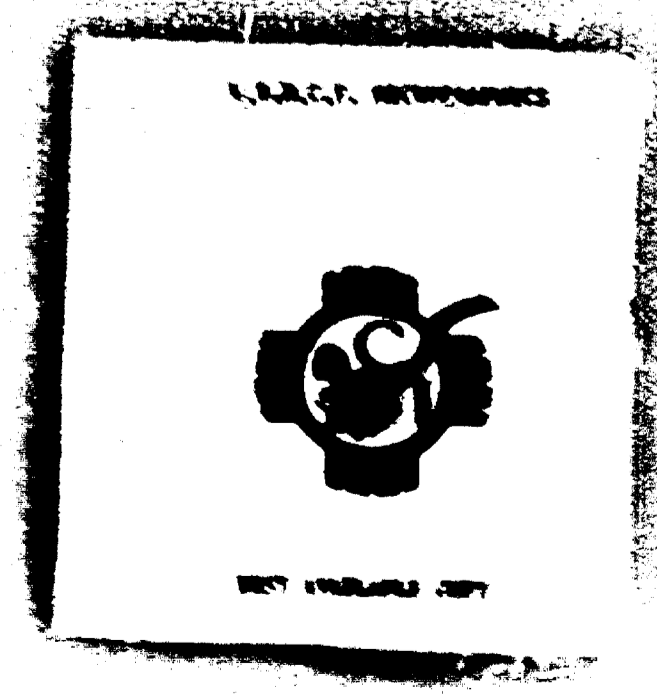
Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no well shall be recompleted or be produced from a source or supply from which a well located elsewhere in the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, F.P.M. or thereafter shall cease to be a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Subject to existing contracts and the Gas Storage and Balancing Agreement attached as Exhibit "E", each party shall have the right to take in kind or otherwise dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for market purposes and production unavoidably lost. Each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties or other payments which may become due on its share or shares, therefor. Any extra expenditures incurred in the taking in kind or otherwise disposition by any party of its proportionate share of the production shall be borne by such party.

Subject to existing contracts and the Gas Storage and Balancing Agreement attached as Exhibit "E", each party shall execute such division orders and contracts as may be required for the sale of its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.



A.A.P.L. FORM 610

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 and gas produced from the Unit Area, Operator shall have the right, subject to execution as will be the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owners of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. ~~Notwithstanding the foregoing, Operator shall not make or take into interstate commerce of any other party's share of gas production without first giving such other party a written notice of such intended sale. Any purchase or sale by Operator of any other party's share of oil and gas 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 90 days.~~ ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole 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 shall, upon request, furnish each of the other parties with copies of all 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 Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties, provided, however, that the party (or parties) who are to plug and abandon such well, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's subsurface material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of snubbing and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its 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. The assignments so limited shall encompass the "drill-pool" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment the assignees shall have no further responsibility, liability, or interest in the operation or production from the well in the interval or intervals then open. Upon request of the assignees, 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.



17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Each party shall pay all delay rentals and shut-in well payments which may be required under the terms of its lease or leases and submit evidence of each payment to the other parties at least ten (10) days prior to the payment due. The paying party shall be reimbursed by Operator for 100% of any such delay rental payment and 100% of any such shut-in well payment. The amount of such reimbursement shall be charged by Operator to the joint account of the parties and treated in all respects the same as costs incurred in the development and operation of the Unit Area. Each party responsible for such payments shall diligently attempt to make proper payment, but shall not be held liable to the other parties in damages for the lack of any lease or interest therein if, through mistake or oversight, any rental or shut-in well payment is not paid or is erroneously paid. The loss of any lease or interest therein which results from a failure to pay or an erroneous payment of rental or shut-in well payment shall be a joint loss and there shall be no readjustment of interests in the remaining portion of the Unit Area. If any party secures a new lease covering the terminated interest, such acquisition shall be subject to the provisions of Section 22 of this agreement.

Operator shall promptly notify each other party hereto of the date on which any gas well located on the Unit Area is shut in and the reason therefor.

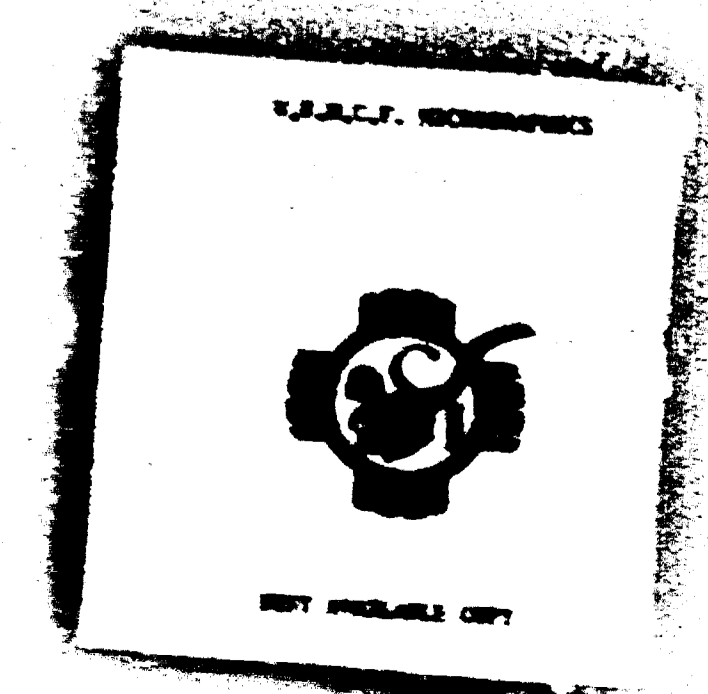
18. PREFERENTIAL RIGHT TO PURCHASE

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 and conditions. 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 proportion that the interest of each bears to the total interest of all participating parties. However, there shall be no preferential right to purchase in those cases where a party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the shares.~~

19. SELECTION OF NEW OPERATOR

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale to majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

W.C.
Prefer the individual loss wording since Marathon may end up as party to the sale.
206-2100



A.A.P.L. FORM 610

20. MAINTENANCE OF UNIT OWNERSHIP

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

- (1) the entire interest of the party in all leases and equipment and production in the Unit Area;
- (2) an equal undivided interest in all leases and equipment and production in the Unit 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 rights 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 may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive rentals 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 interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the net proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall elect by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of such 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES

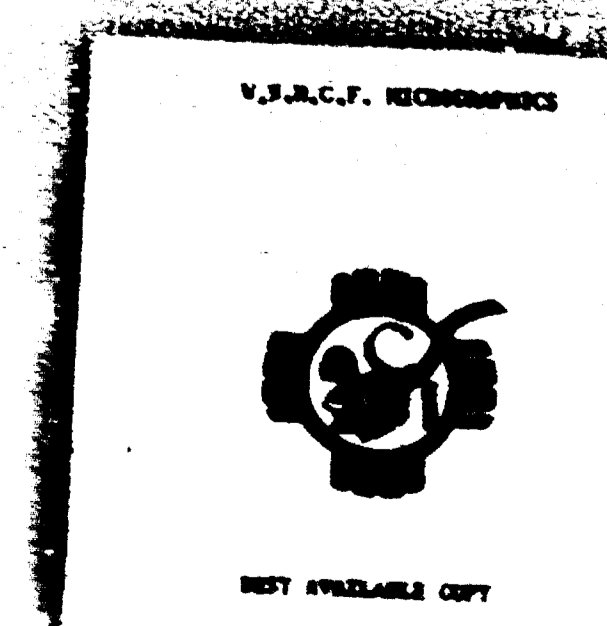
If any party secures a renewal of any oil and gas lease subject to this contract, such and all of the other parties shall be notified promptly, and shall have the right to participate in the securing of the renewed lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewed lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewed lease. Any renewed lease in which less than all the parties elect to participate shall not be subject to this agreement.

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

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

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases. The provisions in this section shall not apply to portions of leases situated outside the Unit Area.



A.A.P.L. FORM 619

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not retroactively secured, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 641(a) of the Internal Revenue Code of 1954 to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be executed. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

~~Operator shall render for ad valorem taxation all property subject to this agreement which should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".~~

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty assessed, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".
See Article 31E for additional provisions.



A.A.M.I. FORM 610

27. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for operator's fully owned automotive equipment.

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the Joint attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties. If outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and to the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the Joint account of all parties, shall be handled by Operator and its attorneys; the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand (\$1,000.00) dollars and, if settled, the same paid in settlement shall be charged in expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. FORCE MAJEURE

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

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 restraint, 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.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the



A.A.P.L. FORM 610

addresses listed as Exhibit "A". The originating notice to be 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 or response therein shall run from the date the originating notice is received. The record or copy responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. 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.

3. OTHER CONDITIONS, IF ANY, ARE:

A. This agreement is made subject to all the provisions of that certain Farnout Letter Agreement dated June 11, 1979, from Mobil Oil Corporation to Texas Oil & Gas Corp., and if there be any conflict between the provisions of this agreement and said Farnout Letter Agreement, the provisions of the latter shall prevail.

B. If, after the date of said Farnout Letter Agreement, any party hereto should create against its interest any overriding royalty, production payment or other burden, and if any other party or parties thereafter should conduct non-consent operations and, as a result, become entitled to receive the working interest of the non-participating party or parties, the party or parties entitled to receive the working interest of the non-participating party or parties shall be entitled to receive the working interest of the non-participating party or parties shall be entitled to receive such production free and clear of all such overriding royalty, production payment or other burdens, other than the lessor's lease royalty, and the non-participating parties creating such burdens shall discharge such burdens out of its own funds and shall save the participating party or parties harmless with respect to receipt of such working interest production.

C. Operator shall give non-operator notice thereof each time any producing gas well is shut in, which notice shall include the date on which such well was shut in and the reason therefor. Each time a gas well which has been shut in is put back on production, Operator shall give non-operator notice thereof. Operator shall, in good faith, endeavor to promptly give non-operator the notices herein provided for but Operator shall not be liable to non-operator for inadvertently failing to give such notices.

D. In the performance of the 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; and Operator further agrees to comply fully with the non-discrimination provisions of Section 205 of Executive Order No. 11246 (30 F.R. 12319) as amended by Executive Order 11375, which are hereby included in this Contract as Contract Supplements "A" and "B" and made part hereof. Operator shall also abide by the requirements of Executive Order 11390, Occupational Safety and Health Act, and by Executive Order 11660, Veterans Hire Regulations, which orders are inserted herein by reference.

E. Operator shall render for assessment and pay all taxes which may be legally assessed against the leasehold estate or on personal property located thereon insofar as they cover and affect the oil and gas rights in the lands covered hereby. Except as hereinafter provided, Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C". If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest.

F. It is specifically understood that consent to the drilling or deepening of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to parties bearing costs of drilling to said depth. The parties receiving such notice shall have forty-eight (48) hours in which to elect whether or not they desire to set casing and to participate in a completion attempt. 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 costs of a completion attempt. If all of the parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of such parties. If one or more, but less than all of said parties elect to set pipe and attempt a completion, the provisions of Section 12 shall apply to the operations thereafter conducted by less than all parties, exclusive of Saturdays, Sundays and Legal Holidays.



7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

41

42

43

44

45

46

47

48

49

50

51

52

53

54

55

56

57

58

59

60

61

62

63

64

65

66

67

68

69

70

71

72

73

74

75

76

77

78

79

80

81

82

83

84

85

86

87

88

89

90

91

92

93

94

95

96

97

98

99

100

101

102

103

104

105

106

107

108

109

110

111

112

113

114

115

116

117

118

119

120

121

122

123

124

125

126

127

128

129

130

131

132

133

134

135

136

137

138

139

140

141

142

143

144

145

146

147

148

149

150

151

152

153

154

155

156

157

158

159

160

161

162

163

164

165

166

167

168

169

170

171

172

173

174

175

176

177

178

179

180

181

182

183

184

185

186

187

188

189

190

191

192

193

194

195

196

197

198

199

200

201

202

203

204

205

206

207

208

209

210

211

212

213

214

215

216

217

218

219

220

221

222

223

224

225

226

227

228

229

230

231

232

233

234

235

236

237

238

239

240

241

242

243

244

245

246

247

248

249

250

251

252

253

254

255

256

257

258

259

260

261

262

263

264

265

266

267

268

269

270

271

272

273

274

275

276

277

278

279

280

281

282

283

284

285

286

287

288

289

290

291

292

293

294

295

296

297

298

299

300

301

302

303

304

305

306

307

308

309

310

311

312

313

314

315

316

317

318

319

320

321

322

323

324

325

326

327

328

329

330

331

332

333

334

335

336

337

338

339

340

341

342

343

344

345

346

347

348

349

350

351

352

353

354

355

356

357

358

359

360

361

362

363

364

365

366

367

368

369

370

371

372

373

374

375

376

377

378

379

380

381

382

383

384

385

386

387

388

389

390

391

392

393

394

395

396

397

398

399

400

401

402

403

404

405

406

407

408

409

410

411

412

413

414

415

416

417

418

419

420

421

422

423

424

425

426

427

428

429

430

431

432

433

434

435

436

437

438

439

440

441

442

443

444

445

446

447

448

449

450

451

452

453

454

455

456

457

458

459

460

461

462

463

464

465

466

467

468

469

470

471

472

473

474

475

476

477

478

479

480

481

482

483

484

485

486

487

488

489

490

491

492

493

494

495

496

497

498

499

500

501

502

503

504

505

506

507

508

509

510

511

512

513

514

515

516

517

518

519

520

521

522

523

524

525

526

527

528

529

530

531

532

533

534

535

536

537

538

539

540

541

542

543

544

545

546

547

548

549

550

551

552

553

554

555

556

557

558

559

560

561

562

563

564

565

566

567

568

569

570

571

572

573

574

575

576

577

578

579

580

581

582

583

584

585

586

587

588

589

590

591

592

593

594

595

596

597

598

599

600

601

602

603

604

605

606

607

608

609

610

611

612

613

614

615

616

617

618

619

620

621

622

623

624

625

626

627

628

629

630

631

632

633

634

635

636

637

638

639

640

641

642

643

644

645

646

647

648

649

650

651

652

653

654

655

656

657

658

659

660

661

662

663

664

665

666

667

668

669

670

671

672

673

674

675

676

677

678

679

680

681

682

683

684

685

686

687

688

689

690

691

692

693

694

695

696

697

698

699

700

701

702

703

704

705

706

707

708

709

710

711

712

713

714

715

716

717

718

719

720

721

722

723

724

725

726

727

728

729

730

731

732

733

734

735

736

737

738

739

740

741

742

743

744

745

746

747

748

749

750

751

752

753

754

755

756

757

758

759

760

761

762

763

764

765

766

767

768

769

770

771

772

773

774

775

776

777

778

779

780

781

782

783

784

785

786

787

788

789

790

791

792

793

794

795

796

797

798

799

800

801

802

803

804

805

806

807

808

809

810

811

812

813

814

815

816

817

818

819

820

821

822

823

824

825

826

827

828

829

830

831

832

833

834

835

836

837

838

839

840

841

842

843

844

845

846

847

848

849

850

851

852

853

854

855

856

857

858

859

860

861

862

863

864

865

866

867

868

869

870

871

872

873

874

875

876

877

878

879

880

881

882

883

884

885

886

887

888

889

890

891

892

893

894

895

896

897

898

899

900

901

902

903

904

905

906

907

908

909

910

911

912

913

914

915

916

917

918

919

920

921

922

923

924

925

926

927

928

929

930

931

932

933

934

935

936

937

938

939

940

941

942

943

944

945

946

947

948

949

950

951

952

953

954

955

956

957

958

959

960

961

962

963

964

965

966

967

968

969

970

971

972

973

974

975

976

977

978

979

980

981

982

983

984

985

986

987

988

989

990

991

992

993

994

995

996

997

998

999

1000



to secure the payment of any amount that may at any time become due and payable by Operator to such No-Operator under the terms of this agreement, together with interest thereon as provided in Section 8 thereof.

N. Notwithstanding the provisions of this agreement and of the accounting procedure attached as Exhibit "C", the Parties to this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing for the entire interest credited to each Party on Exhibit "A". It is further agreed that if any Party to this agreement (hereafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its assignee or assignees, and shall remain primarily liable to the other parties for the interest or interest assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it. It is further understood and agreed that if Selling Party disposes of all its interest as set out on Exhibit "A", whether to one or several assignees, Operator shall continue to issue statements and billings to the Selling Party for the interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", Selling Party shall furnish to Operator the following:

1. Written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made.
2. The name of the assignee to be billed and a written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof, and further, consents to handle any necessary sub-billings. In the event it does not own the entire interest credited to Selling Party on Exhibit "A".



A.A.P.L. FORM 410

The agreement may be signed in counterparts, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

ATTEST:

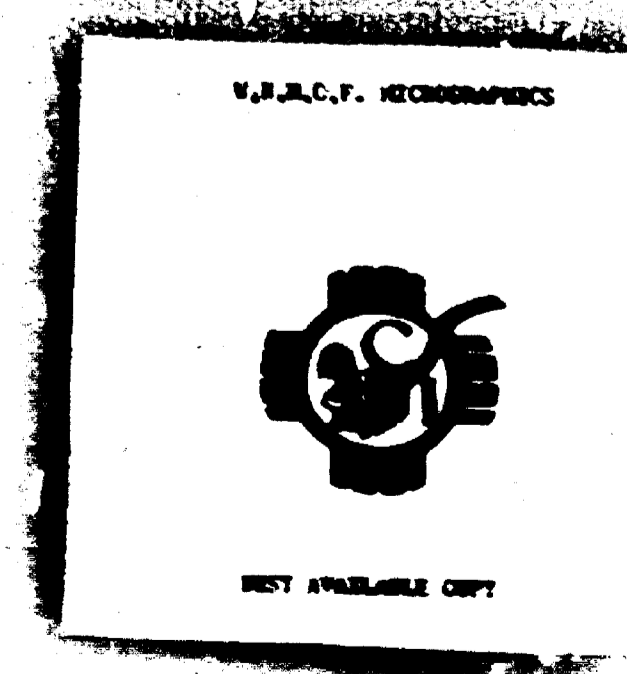
TEXAS OIL & GAS CORP.

By: _____

OPERATOR

ATTEST:

ATTEST:



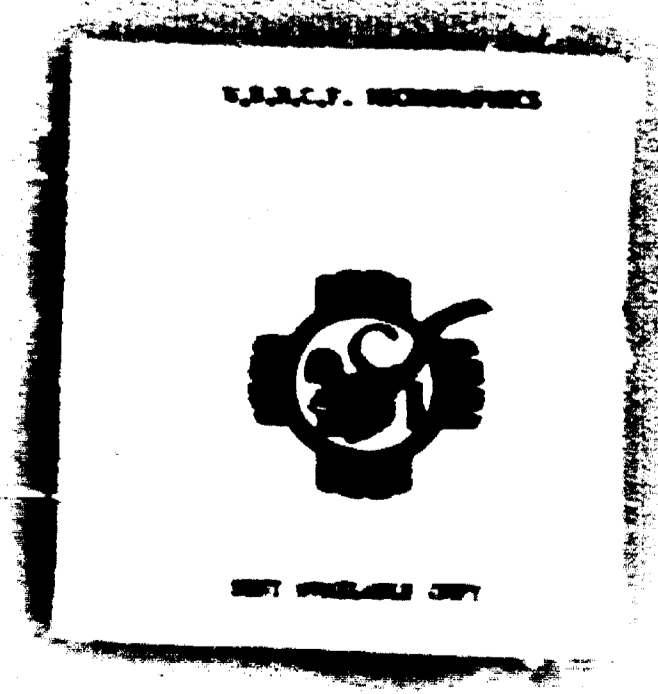
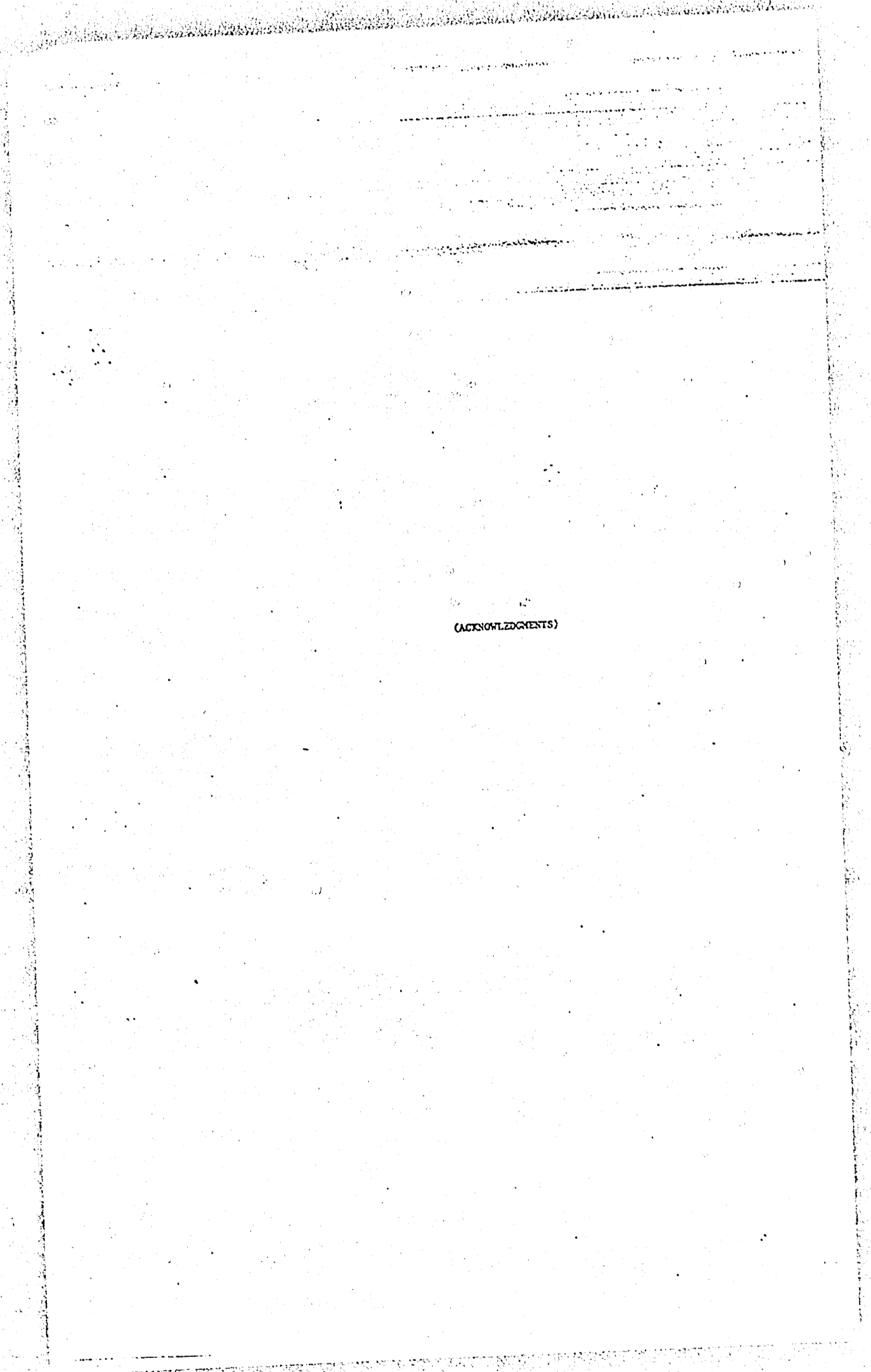


EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN
OPERATING AGREEMENT BY AND BETWEEN TEXAS
OIL & GAS CORPORATION, OPERATOR, AND MOBIL
OIL CORPORATION, NON-OPERATOR, FOLLOWING
THE FARMOUT LETTER AGREEMENT BETWEEN MOBIL
OIL CORPORATION AND TEXAS OIL & GAS
CORPORATION DATED JUNE 11, 1979.

(Prior to execution of this Operating Agreement by the appropriate parties,
the provisions of this Exhibit "A" shall be completed in accordance with
the terms and provisions of the said captioned Farmout Letter Agreement
dated June 11, 1979, with the general guidelines set out below.)

UNIT AREA

East Half Section 6, T-17-S, R-35-E, Lee County, New Mexico

INTERESTS OF THE PARTIES

Ownership in the oil and gas interest and the oil and gas leasehold, personal
property, equipment wells and production therefrom, shall be as set forth
in said Farmout Letter Agreement, and any reversionary oil and gas interest,
or oil and gas leasehold, shall become subject to this agreement when such
interest becomes jointly owned by the parties pursuant to the terms of said
Farmout Letter Agreement.

LEASES OF THE PARTIES

Lease(s) described in said Farmout Letter Agreement which become(s) jointly
owned by the parties pursuant to the terms of said Farmout Letter Agreement
and such leases that may be pooled or communitized with said jointly
owned lease pursuant to the terms of said Farmout Letter Agreement.

ADDRESSES OF THE PARTIES

Mobil Oil Corporation
Nine Greenway Plaza, Suite 2700
Houston, TX 77056
Attention: Joint Interest Administrator
Texas Oil & Gas Corporation
800 Wilson Building
Midland, TX 79701
Attention: Mr. Doyle John Snow

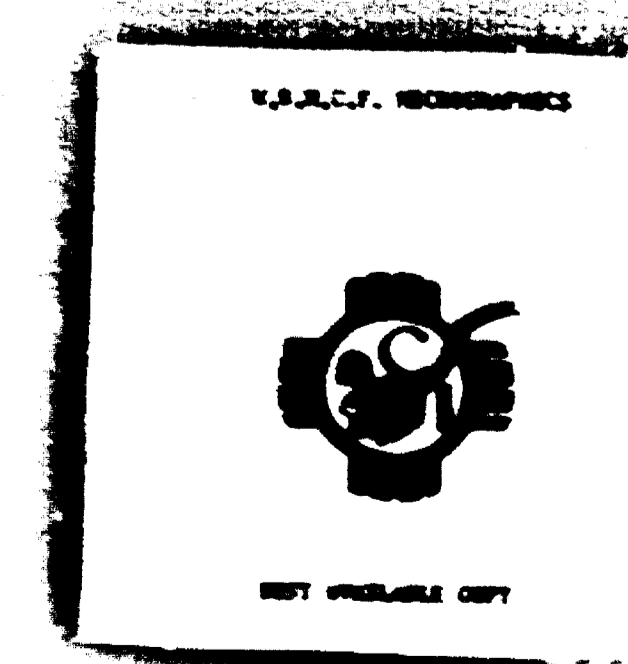


EXHIBIT "C"

Attached is and made a part of the Vacuum State W.I. Unit Operating Agreement dated between Texas Oil & Gas Corp., Operator, and Mobil Oil Corporation, et al. Non-Operators, covering E.Z. of Section 6, T-17-S, R-35-S, H.B.P.N., Lea County, New Mexico.

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 and legitimate expenses of Operator's employees.
 - "Materials" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
 - "Controlable 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 of North America.
2. Statement and Billings
 - Operator shall bill Non-Operators on or before the first 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 expenditures, lease or royalty, and all charges and credits summarized by appropriate classifications of investments and expense except that items of Controlable Material and unusual charges and credits shall be separately identified and fully described in detail.
3. Advances and Payments by Non-Operators
 - Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash royalty for the preceding month's operations. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
 - 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 rate of twelve percent (12%) per annum 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 correct by the end of the 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 within 18 months unless the same is made within the said twenty-four (24) month period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controlable 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 notice of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 4 of this Section 1. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall have no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.
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. Rentals and Expenses
Lease contract and royalties paid by Operator for the Joint Operation.
2. 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 directly employed on the Joint Property if such charges are excluded from the Overhead rates.
(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
B. Operator's cost of holiday, vacation, sick leave and disability benefits and other customary allowances shall be charged to the Joint Account under Paragraph 2A of this Section.
C. Such costs under Paragraph 2B may be charged to a "wage and as paid basis" or by "percentage agreement" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section. If percentage agreement 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 when applicable to Operator's cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section shall be charged to the Joint Account under Paragraph 2A of this Section.
D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section.
3. Employee Benefits
Operator's current cost of establishment plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, profit sharing and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section shall be Operator's actual cost net of saved benefit per cent (50%).
4. 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.
5. Transportation
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
A. If Material is moved in 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 source, recognized large terminal, or railway receiving point where the material is normally available, 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 source, recognized large terminal, or railway receiving point, 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 Paragraphs A and B above, there shall be an equalization of actual gross trucking cost of 20% or less existing seasonal charges.
6. Services
The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 8 of Section II and Paragraph 1, 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.
7. Equipment and Facilities Furnished by Operator
A. Operator shall charge the Joint Account for the 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 investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
B. In the case of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For immovable equipment, Operator may elect to use rates published by the Petroleum Joint Transport Association.
8. 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 the Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
9. Legal Expense
Expense of handling, investigating and settling litigation or claim, discharging of liens, payment of judgments and amounts paid for settlement of claim, 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.



10. Taxes
 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operations thereon, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance
 Notwithstanding that the insurance required to be carried for the Joint Property for the protection of the Parties, in the event such operations are conducted in a state in which Operator may act as off-shore for "Workover, Major Construction and/or Employees Liability" under the respective state laws, Operator may, at its discretion, include the risk under its self-insurance program and in that event, Operator shall include a charge of Operator's cost not to exceed annual rates.

12. Other Expenditures
 Any other expenditure not covered or dealt with in the preceding provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

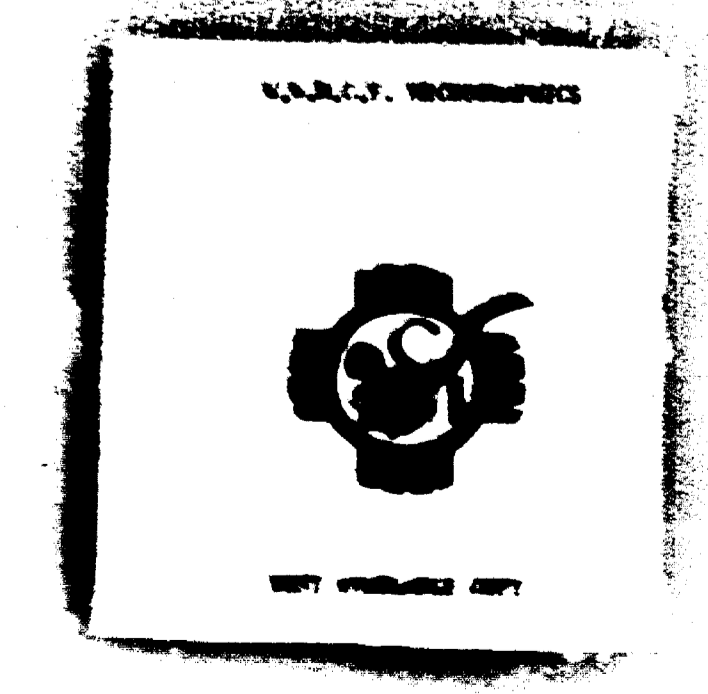
III. OVERHEAD

1. Overhead - Drilling and Production Operations
 As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and production operations on either:
 (X) Fixed Rate Basis, Paragraph 1A, or
 () Percentage Basis, Paragraph 1B.
 Unless otherwise agreed to by the Parties, such charges shall be in lieu of costs and expenses of all officers and salaries or wages plus applicable benefits and expenses of all personnel, except those directly chargeable and salaries or wages plus applicable benefits and expenses of all personnel, except those directly chargeable under Paragraph 2A, 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.

2. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultation services and contract services of technical personnel directly employed on the Joint Property shall () shall not (X) 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 \$ 3,300
 Producing Well Rate \$ 2,200

(2) Application of Overhead - Fixed Rate Basis shall be as follows:
 (a) Drilling Well Rate
 (1) Charges for surface drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is removed, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
 (2) Charges for offshore drilling wells shall begin on the date when drilling or completion equipment is lowered on location and terminate on the date the drilling or completion equipment is removed off location or rig is removed, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
 (3) Charges for wells undergoing any type of workover or rehabilitation for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations will commence through date of rig removal, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.
 (b) Producing Well Rates
 (1) An active well other than producer or injector into 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 commencing down hole shall be considered as a one-well charge pending such completion is considered a separate well by the governing regulatory authority.
 (3) An inactive gas well shall be treated as overproduction or failure of production to take the production well charge provided as a one-well charge pending the gas well is directly connected to a permanent sales outlet.
 (4) A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable lease, allowable, free-of-charge, 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 in which the 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 company of Crude Petroleum and Gas Production Wobles for the base calendar year compared to the calendar year preceding as shown by the index of average weekly quantity of Crude Petroleum and Gas Production 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.
 *Prior completion of any well, operator shall not employ any technical employees and/or professional consultants without prior approval of non-operator, and non-operator agrees that such approval shall not be unreasonably withheld.



B. Overhead - Percentage Basis

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

1a) Development - Paragraph 2, (1) of the cost of Development at the Joint Property shall be as follows:
 Development - Paragraph 2, (1) of the cost of Development at the Joint Property shall be as follows:
 Development - Paragraph 2, (1) of the cost of Development at the Joint Property shall be as follows:

1b) Operating - Paragraph 2, (2) of the cost of Operating the Joint Property shall be as follows:
 Operating - Paragraph 2, (2) of the cost of Operating the Joint Property shall be as follows:
 Operating - Paragraph 2, (2) of the cost of Operating the Joint Property shall be as follows:

(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, reworking, deepening or any reworking operations on any well or wells, including the cost of drilling tools and equipment, also, preliminary expenditures necessary to preparation for drilling and operations thereon, including the cost of land, which the well is not completed as a production well, and original cost of construction or installation of fixed assets, the stationing of fixed assets and any other project costs, including 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 determine Overhead for overhead costs incurred in the construction and installation of fixed assets, the operation of fixed assets, and any other project, directly attributable to a "fixed asset" required for the development and operation of the Joint Property, Operator shall apply the following rates to the percentage of development, or shall charge the Joint Account for Overhead, based on the following table for any Major Construction project in excess of \$25,000.00:

A. 3% of total cost if such costs are more than \$25,000.00 but less than \$100,000.00 plus
 B. 2% of total cost in excess of \$100,000.00 but less than \$1,000,000 plus
 C. 1% of total cost 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 shall be excluded.

3. 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 unworkable or excessive.

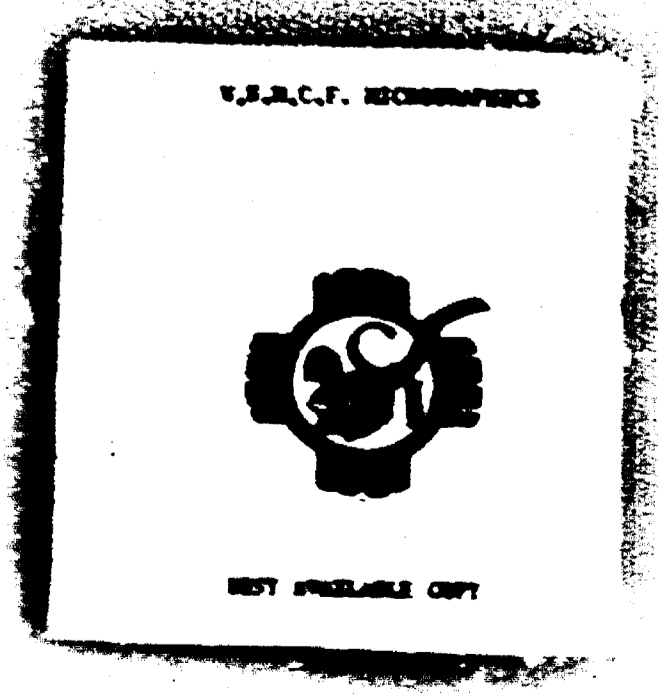
IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSALS
 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property, however, all Operator's activities, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of sale and surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to a third party. Operator may purchase, but shall be under no obligation to purchase, surplus of Non-Operator in surplus, according to 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 reason, credit shall be posted to the Joint Account when adjustment has been received by the Operator.

2. Transfer and Disposition
 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 such discounts:

A. New Material (Including A)
 (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a net basis, without or less, based on weight basis, regardless of quantity transferred, equivalent to the lowest published price for such tubular goods, except pipe or reworked pipe, furnished to the Joint Property where such Material is normally available.
 (2) Line Pipe
 (a) Movement of less than 2000 pounds 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 where such Material is normally available.
 (b) Movement of 2000 pounds or more shall be priced under previous or tubular goods prices in Paragraph 2A(1) of this Section IV.
 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store for such tubular goods, except pipe, furnished to the Joint Property where such Material is normally available.

B. Used (Old) Material (Including B)
 Material in general and petroleum accessories and suitable for reuse without reconditioning:
 (1) Material moved to the Joint Property
 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
 (2) Material moved from the Joint Property
 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material or



(b) at successive intervals (15%) of current cost price as determined by Paragraph 2A of this Section. If at intervals not exceeding three (3) months as determined by Paragraph 2A of this Section, the cost of reconstruction, if any, shall be absorbed by the transferring property.

C. Other Good Material (Conditions C and D)

(1) Condition C
Material which is not in sound and serviceable condition and not suitable for its intended function until after reconstruction shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section. The cost of reconstruction, shall be charged to the receiving property, plus value Condition C value plus cost of reconstruction does not exceed Condition F value.

(2) Condition D
All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operator.

D. Obsolete Material
Material which is serviceable and usable for its original function but obsolete and of 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 and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all regular goods movements, in lieu of loading and unloading costs assumed, when actual loading cost of such goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knock-down price of new Material.

2. Premiums Paid
Wherever 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 procuring such Material, in making it available for use and in making it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed purchase and charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so deciding and charging prior to billing Non-Operators for such Material, 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 granted to the Joint Account until adjustment has been received by Operator from the manufacturer or their agent.

V. INVENTORIES

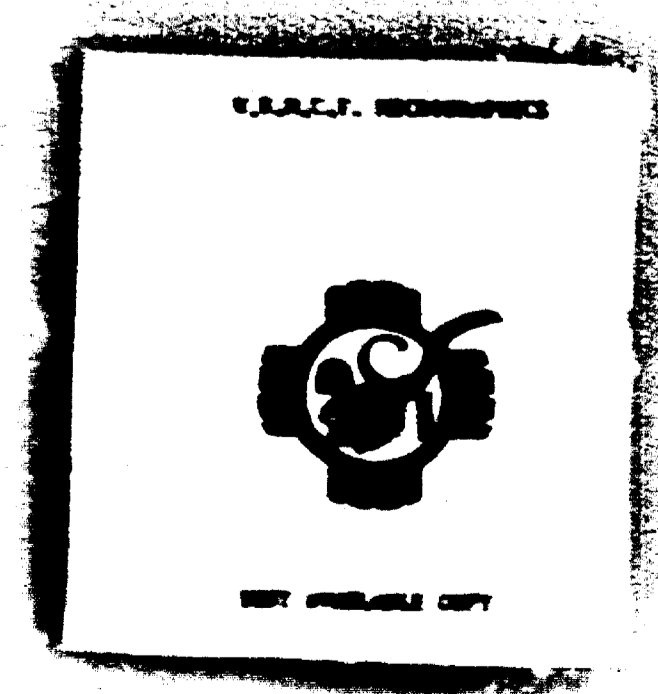
The Operator shall maintain detailed records of Comestible Material.

1. Periodic Inventories, Notice and Representations
At reasonable intervals, inventories shall be taken by Operator of the Joint Account Comestible Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to be taken to the Non-Operators who may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall constitute an acknowledgment of the inventory.

2. Representation and Adjustment of Inventories
Representatives of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held responsible only for shortages due to lack of reasonable diligence.

3. Special Inventories
Special inventories may be taken whenever there is any sale or change of interest 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.

4. Expense of Conducting Periodic Inventories
The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.



ARTICLE 10

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT
 DATED _____ BY AND BETWEEN
 _____ OPERATOR, AND
 _____ NON-OPERATOR.

INSURANCE

Operator shall carry Workmen's Compensation and Employer's Liability Insurance in full compliance with the Workmen's Compensation Law of the particular state where the work is being performed.

Operator shall require all contractors engaged in operations on the contract premises to carry Workmen's Compensation and Employer's Liability Insurance in full compliance with the Workmen's Compensation Law of the state where the work is being performed and to maintain such Workmen's Compensation as Operator may require.

Operator shall not be obligated to provide any other insurance for the labor account of the parties hereto. Any party may, at its own expense, acquire such other insurance as it deems proper to protect itself against any claims, losses, damages, or destructions arising out of operations of the contract premises.



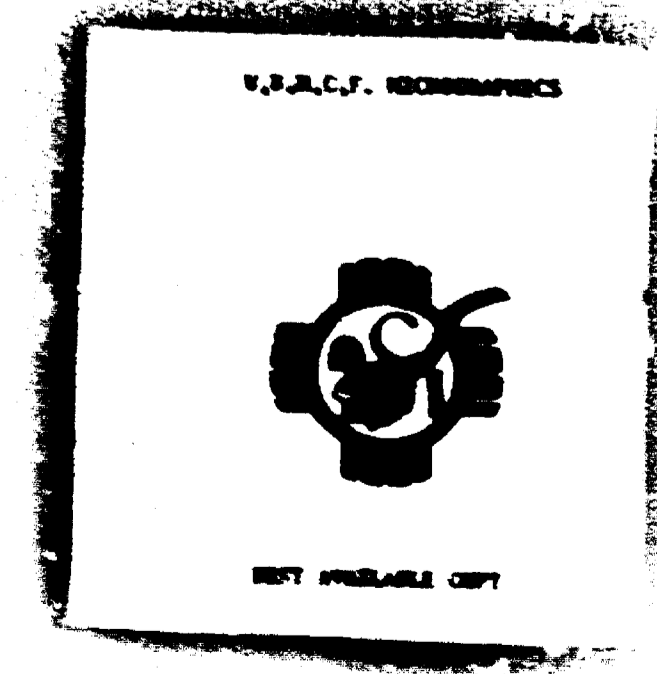
8-58

EXHIBIT "A"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

1. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, transfer, promotion, layoff, recall, suspension, termination, or any other personnel action, including compensation and benefits, except insofar as such action is based upon an individual's qualifications, performance, or conduct. The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices of the prohibition of such discrimination.
2. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
3. The Operator will not use any recruiting agency or representative of workers with which it has a collective bargaining agreement or other contract or understanding, in order to be provided by the agency or representative, unless the labor union or workers' representative of the Operator's contract with such agency or representative is in compliance with Executive Order 11246, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1961, and the rules, regulations and relevant orders of the Secretary of Labor.
5. The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1961, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
6. In the event of the Operator's noncompliance with the nondiscrimination clause of this contract or with any of such rules, regulations or orders, this contract may be cancelled, terminated or suspended, in whole or in part, and the Operator may be declared ineligible for further Government contracts in accordance with provisions contained in Executive Order 11246 of September 24, 1961, and such other sanctions may be imposed as may be provided in Executive Order 11246 of September 24, 1961, or by any rule, regulation or order of the Secretary of Labor or as otherwise provided by law.



P-41

APPENDIX "B"
CERTIFICATION OF NON-DISCRIMINATED FACILITIES

Operator assures Non-Operators that it does not and will not discriminate or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location where the control where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location where the control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order No. 11246, Chapter 10, of the Executive Order signed May 21, 1964, and the provisions of the equal opportunity clause incorporated in contracts between the United States of America and Non-Operators.

Whereas knowingly and willfully making any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.



EXHIBIT "E"
Attached to and made a part of Operating
Agreement between TEXAS OIL & GAS CO.,
as "Operator" and MOBIL OIL CORPORATION,
et al., as Non-Operators.

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such Agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

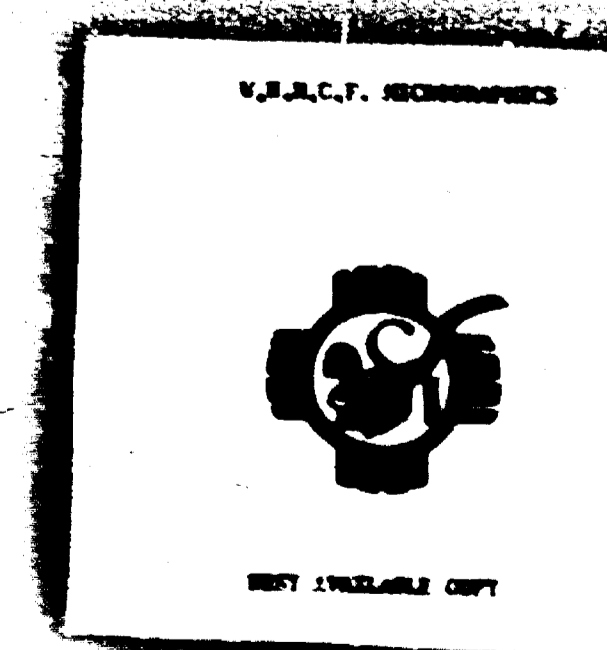
In accordance with the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts, to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the state regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with underproduction equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Unit Area, each party hereto will make settlements with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other 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.

After written notice to the Operator, any party may at any time begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has underproduction (less such party's share of gas used in operations, vented or lost). To allow for the recovery of underproduction and to balance the gas account of the parties in accordance with their respective interests, an underproducing party shall be entitled to take or deliver to a purchaser, in addition to such full share, an amount determined by multiplying twenty five percent (25%) of the interest of the overproducing party or parties by a fraction, the numerator of which is the interest in the Unit Area of such underproducing party and the denominator of which is the total percentage interest in the Unit Area of all underproducing parties currently taking or delivering to a purchaser. Recovery of underproduction by the underproducing party or parties will balance the account in the same sequence that the overproducing party or parties accumulated overproduction.



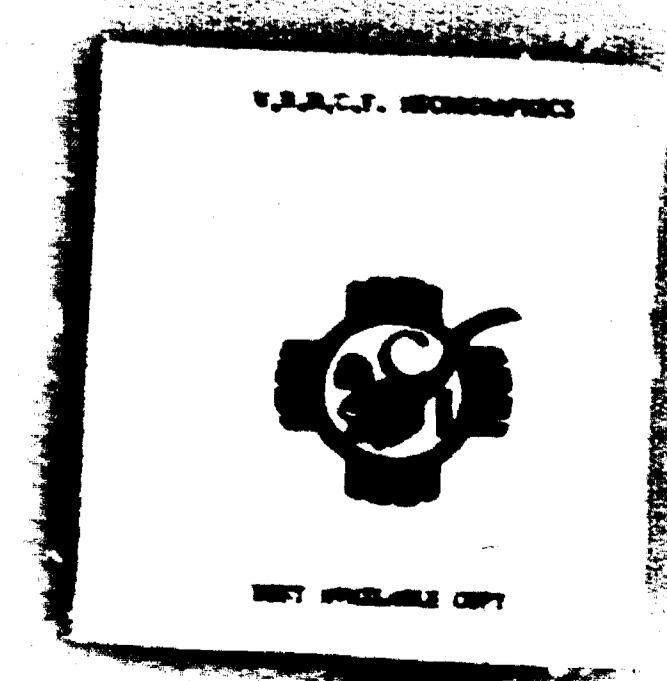
Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

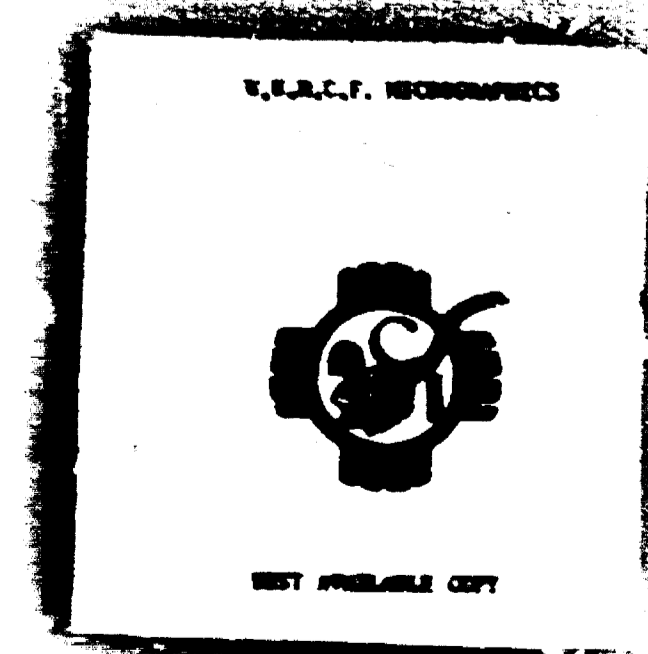
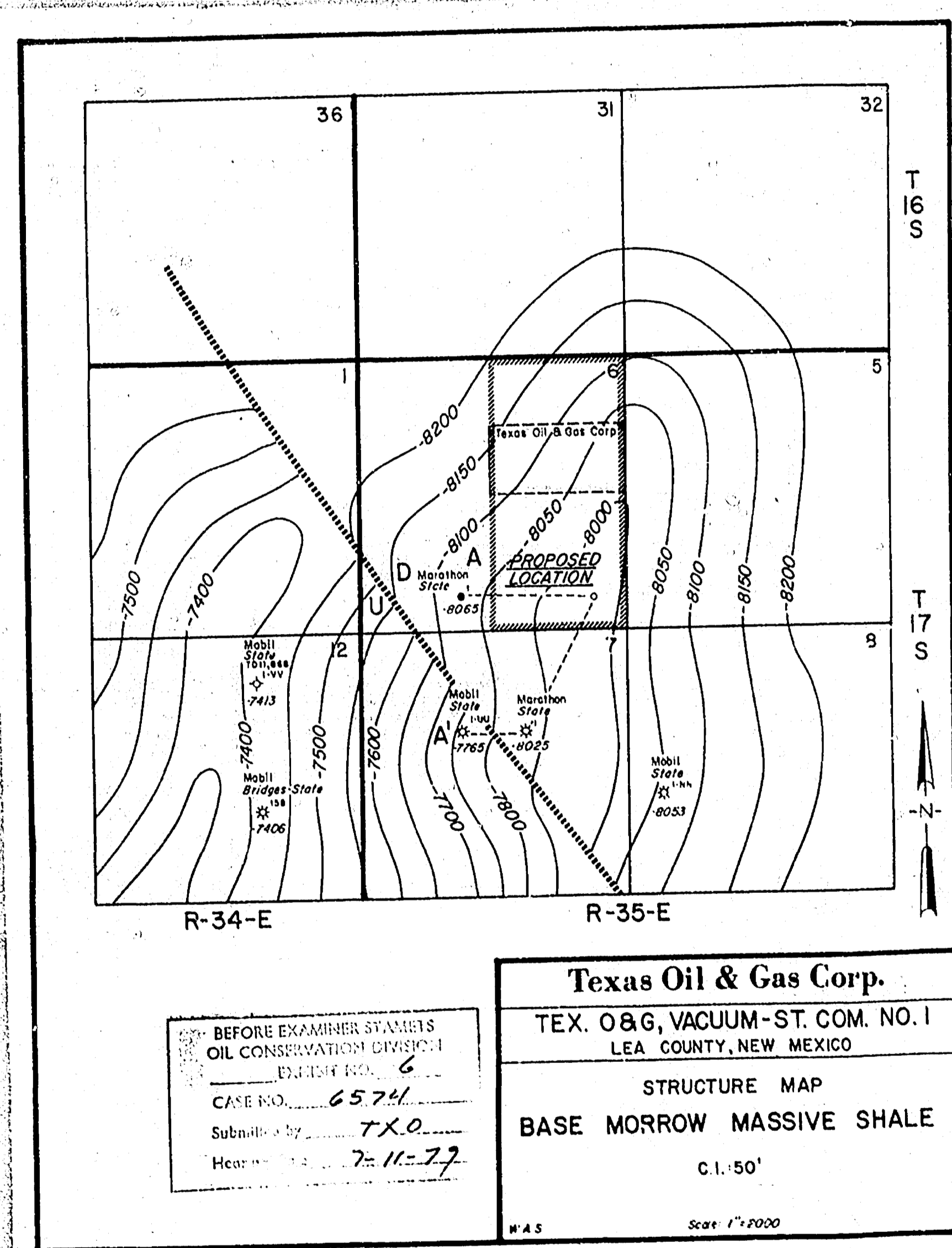
Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability costs required by its purchaser.

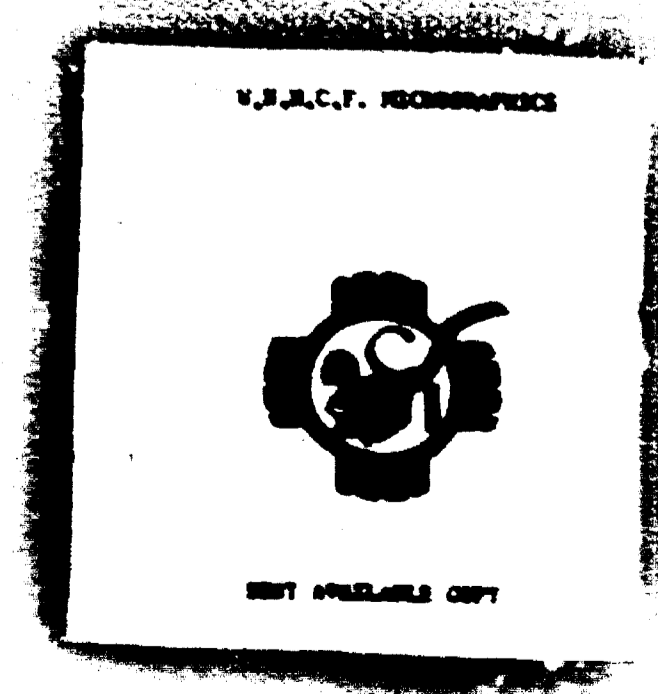
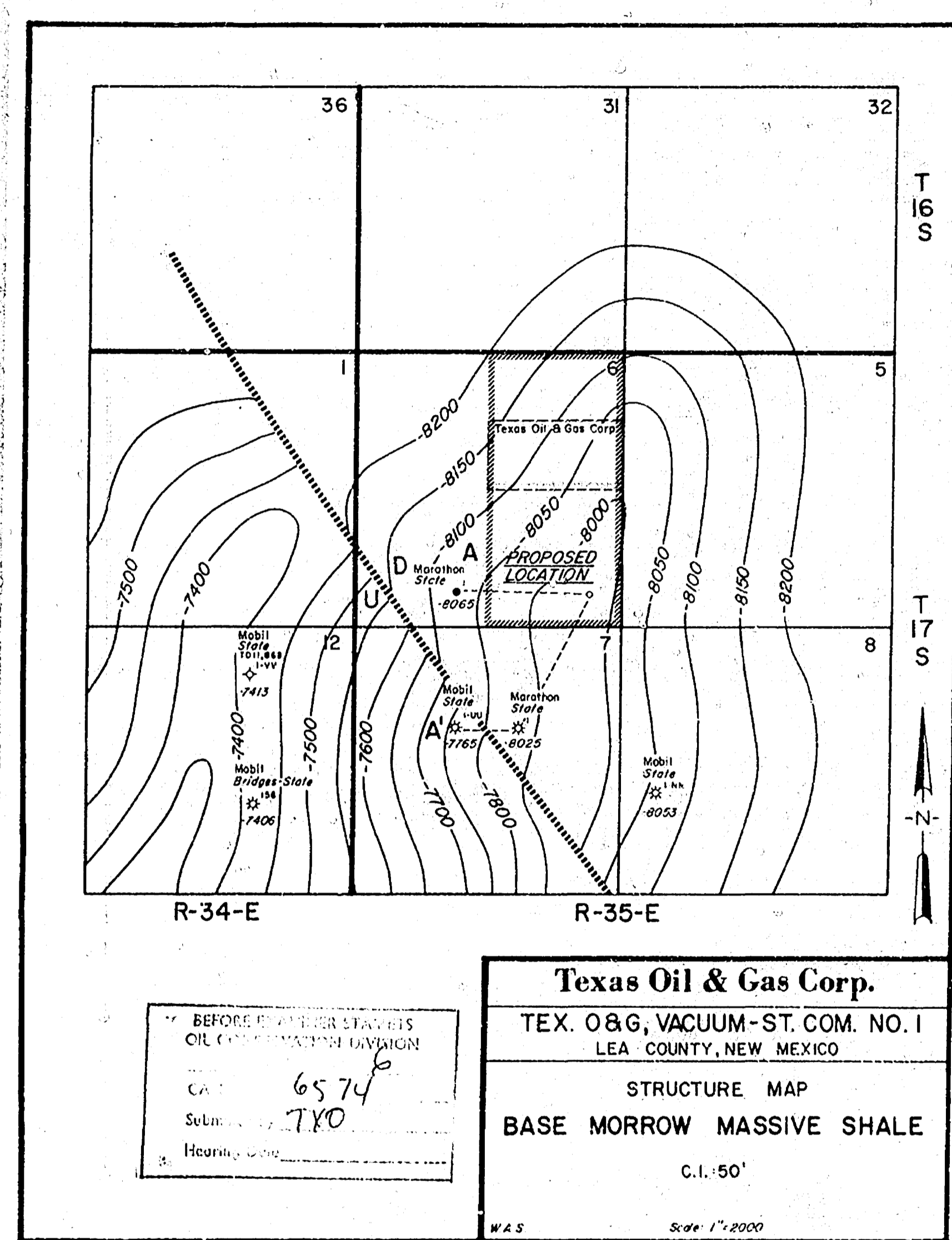
Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes therefor, at the applicable price defined below for the overproduced volumes of gas which have not been recovered by the underproduced party or parties. For gas sold in interstate commerce, the price basis shall be the actual price received for sale of the gas at the time the overproduction was accumulated. For gas sold in interstate commerce, the price basis shall be the rate collected at the time the overproduction was accumulated, from time to time, which is not subject to possible refund, as provided by the Federal Energy Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

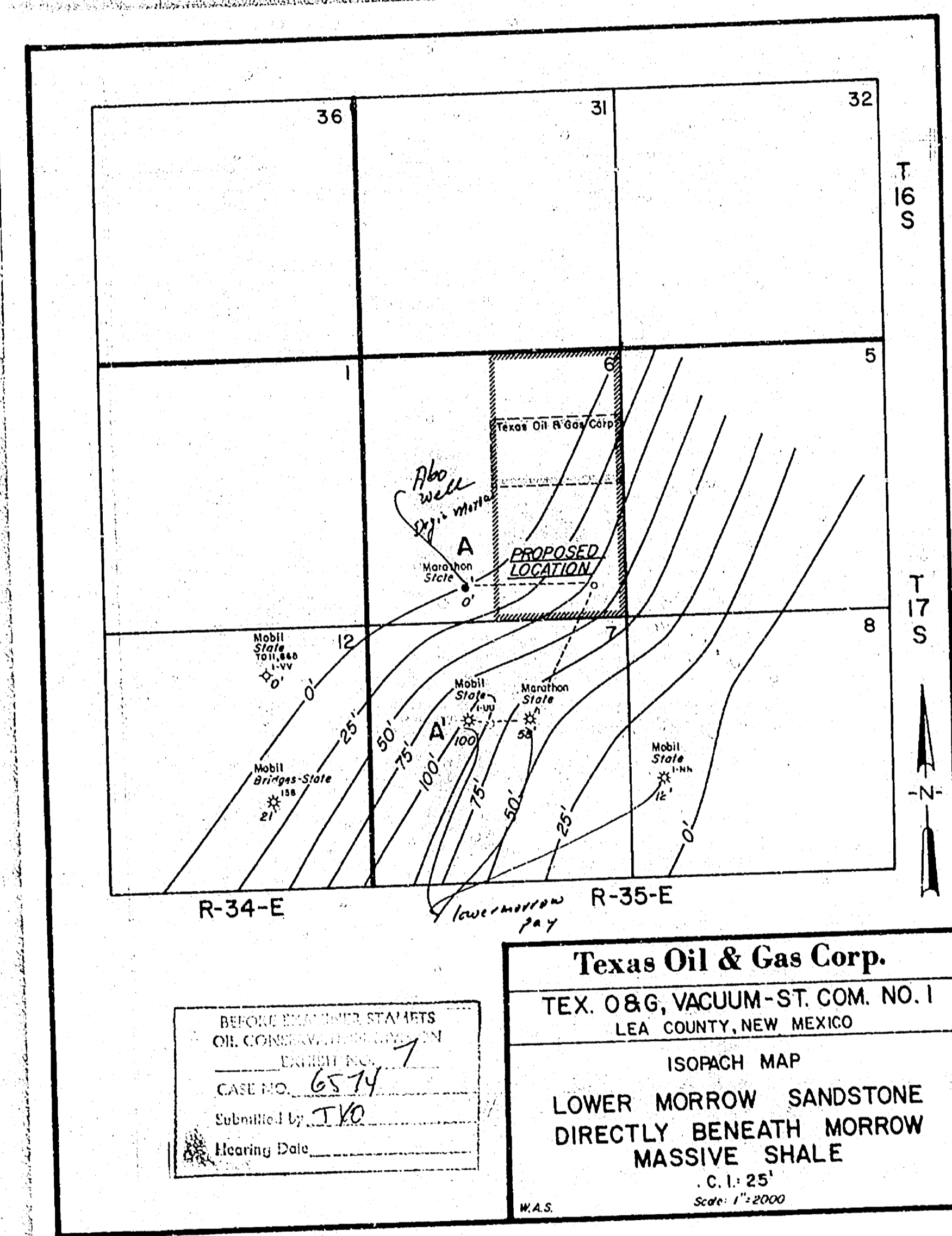
Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.



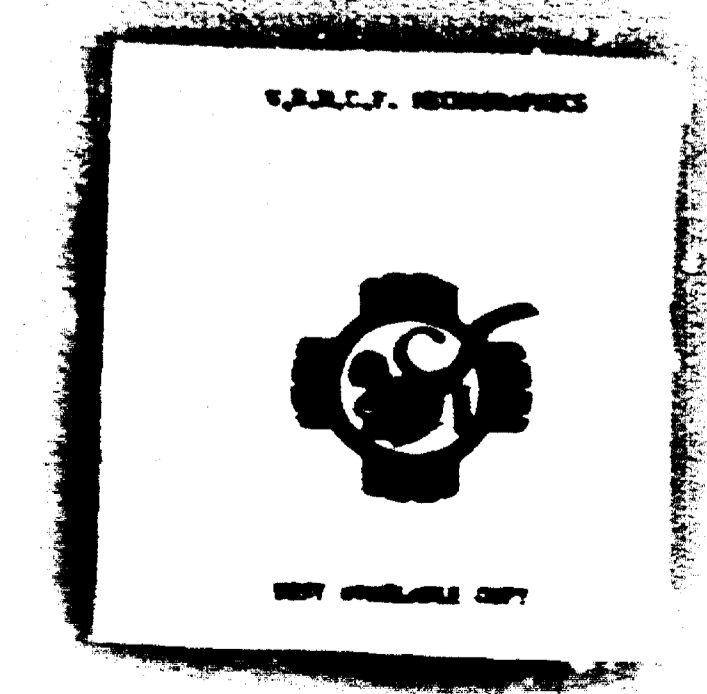


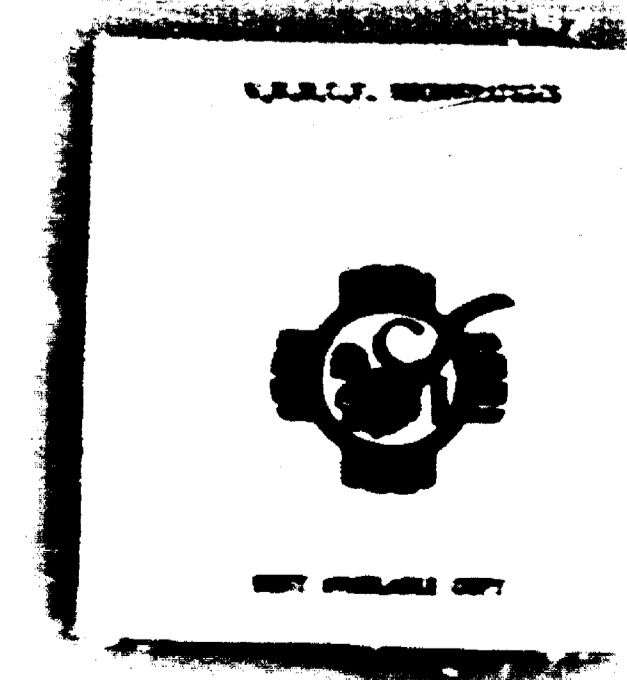
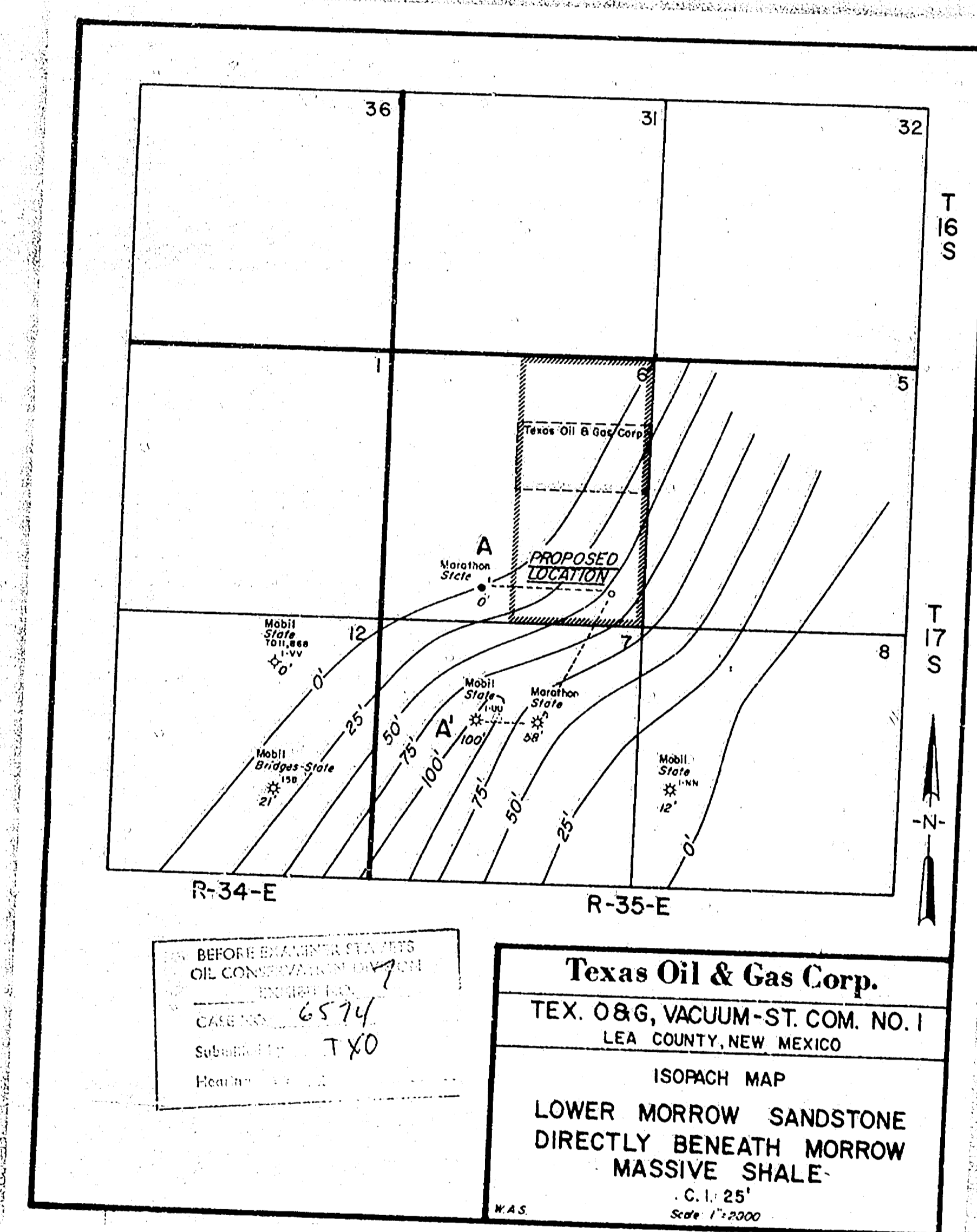


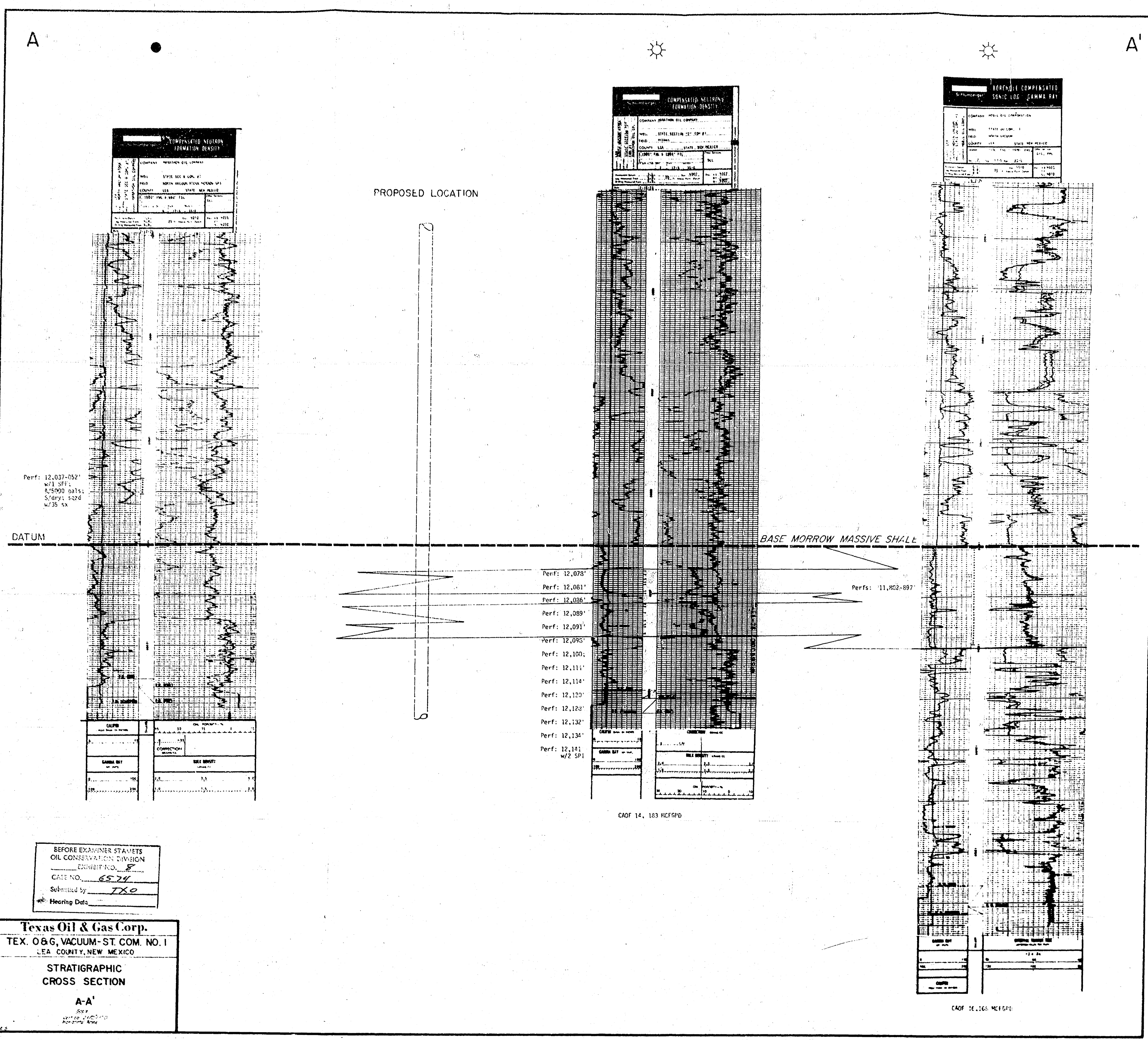


BECKLEY ENGINEERING STAMPS
 OIL COMPANY
 CASE NO. 6574
 Submitted by: T.O.G.
 Hearing Date:

Texas Oil & Gas Corp.
 TEX. O.B.G. VACUUM-ST. COM. NO. 1
 LEA COUNTY, NEW MEXICO
 ISOPACH MAP
 LOWER MORROW SANDSTONE
 DIRECTLY BENEATH MORROW
 MASSIVE SHALE
 C. 1: 25'
 Scale: 1" = 2000'







BEFORE EXAMINER STAMPS
OIL CONSERVATION DIVISION
CASE NO. 6574
Submitted by TXO
Hearing Date

Texas Oil & Gas Corp.
TEX. O & G, VACUUM-ST. COM. NO. 1
LEA COUNTY, NEW MEXICO

**STRATIGRAPHIC
CROSS SECTION**

A-A'

