



CITIES SERVICE OIL AND GAS CORPORATION
P. O. BOX 1919 MIDLAND, TEXAS 79702

(915) 685-5600

February 4, 1986

TXO Production Corp.
900 Wilco Building
Midland, Texas 79701

Attention: Mr. Steve Pitts

RE: Lease Letter Agreement
R-1675-P
NW/4 NE/4 Section 14
T-18-S, R-38-E
Lea County, New Mexico
TXO - Taylor "N" Well

Pursuant to your letter of January 16, 1986, Cities Service Oil and Gas Corporation has reviewed the terms set out in this letter and our management still recommends the terms set out in our January 2, 1986 letter.

If the terms set out in the January 2, 1986 letter are acceptable to you, please advise and I will have the contract prepared.

If you should have any questions, feel free to contact me at 685-5765.

Very truly yours,

CITIES SERVICE OIL AND GAS CORPORATION

Danny Kidwell
Staff Landman

DK/gb

TXO PRODUCTION CORP.
Case No. 8784
2/5/86 Examiner Hearing
Exhibit No. 2

P 139 239 246

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1984-446-014

PS Form 3800, Feb. 1982

Sent to Attn: Danny Kidwell Cities Service Oil & Gas	
Street and No. P. O. Box 1919	
P.O., State and ZIP Code Midland, Texas 79702	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3811, July 1983

SENDER: Complete items 1, 2, 3 and 4.

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

- Show to whom, date and address of delivery.
- Restricted Delivery.

3. Article Addressed to:
Cities Service Oil & Gas
P. O. Box 1919
Midland, Texas 79702
Attn: Danny Kidwell

4. Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail	<input type="checkbox"/> Insured <input type="checkbox"/> COD	Article Number P 139 239 246
--	--	---------------------------------

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Addressee
X

6. Signature - Agent
X *[Signature]*

7. Date of Delivery
JAN 1 1986
MIDLAND TX
USPO

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

DOMESTIC RETURN RECEIPT

January 16, 1986

Cities Service Oil & Gas Corporation
P. O. Box 1919
Midland, Texas 79702

Attention: Mr. Danny Kidwell, Staff Landman

CERTIFIED MAIL

RE: Well Proposal
Taylor "N" #1 Well
NW/4 of NE/4 Section 14
T-18-S, R-38-E, NMPM
Lea County, New Mexico

Dear Mr. Kidwell:

As you know, TXO Production Corp. (TXO) has plans to drill the Taylor "N" #1 Well to approximately 4200' or to sufficiently test the Queen Formation. Due to our drilling obligations, TXO would like to spud this well as soon as possible.

Please find enclosed another copy of the AFE for this well. We would be happy to discuss said AFE or any other concerns you might have toward participating in the drilling of the Taylor "N" #1 Well.

Atlantic Richfield Company (ARCO) has agreed to farmout their leasehold interest to TXO. ARCO will deliver a 75% net revenue lease to TXO with the option to convert their 1/8th override to a 25% working interest at payout. TXO is willing to offer Cities the same trade that ARCO agreed to. By drilling and completing a 4200' Queen Test at a location of 660' FNL & 1980' FEL, Section 14, T-18-S, R-38-E, NMPM, Lea County, New Mexico, TXO would earn a lease from Cities of all their right, title and interest in the proration unit to 100 feet below the deepest depth drilled. Cities will deliver a 75% net revenue lease to TXO with an option, at payout, to convert 1/2 of its 1/4 royalty to a 25% working interest, proportionately reduced.

If you would like to see our geology of this particular prospect, please call me and I will set up a meeting to discuss this matter further. I hope we can come to an agreement and avoid the compulsory pooling hearing. Thank you for your cooperation, and I look forward to talking with you in the near future.

Very truly yours,

Steve Pitts
Landman

SP/dlt
Enclosure

AUTHORITY FOR EXPENDITURE
DRILLING WELL — TXO AND OUTSIDE OPERATED

Date 12-12-85

DISTRICT West Texas WELL NAME Taylor "N" WELL NO. 1
 OPERATED BY TXO LOCATION 660' FNL & 1980' FEL, Sec 14, T-18-S, R-38-E DEPTH 4200'
 FIELD Bishop Canyon (Queen) COUNTY Lea STATE NM
 PREPARED BY Randy Cate SUBMITTED BY Randy Cate DALLAS DISTRICT

EXPENDITURE DESCRIPTION	QUANTITY	DESCRIPTION	EST. COST
DRILLING			
Surface & Intermediate Casing		350' 8 5/8"	4,200
Casinghead			4,000
Location Work		dirt work, damages, staking	15,000
Footage/Turnkey Drilling		4200' @ \$9.50/ft	39,900
Daywork Drilling		1 day @ \$4200/day	4,200
Rig Support			
Bits			
Supervision	10 days	\$250/day	2,500
Drilling Overhead			
Mud & Chemicals & wtr			6,500
Cementing Services & Supplies			5,000
Testing & Logging			8,000
Rentals			5,000
Other IDC		csg crew, trucking, etc.	6,000
Other Equipment			5,000
Legal			1,000
Non-Operated Intangible Drilling			
TOTAL DRILLING			106,300
COMPLETION			
Production Casing	4200'	4 1/2" 10.5# ST&C	19,600
Tubing	4200'	2 3/8" J-55	9,900
Wellhead Equipment			3,000
Subsurface Equipment			4,000
Supervision	10 days	\$250/day	2,500
Mud & Chemicals & wtr			2,000
Testing, Logging & Perforating		correlation log, temp svy, perf	6,500
Stimulation		acid & sand frac	26,000
Completion Overhead			
Rentals			5,000
Service Rig	10 days	\$1400/day	14,000
Cementing Services & Supplies			8,000
Other Completion IDC		csg crew, trucking, etc	5,000
Non-Operated Intangible Completion			
TOTAL COMPLETION			105,500
PRODUCTION EQUIPMENT			
Pumping Unit/Submersible Pump		160 pmp unit	21,000
Engine & Motor		gas engine	6,000
Rods			6,200
Flow Lines			2,000
Meters			5,000
Installation/Overhead			3,000
Storage		2-210 oil, 1-210 wtr	7,500
Separation & Treating		separator & HT	8,000
Other Equipment			5,000
TOTAL PRODUCTION EQUIPMENT			63,700
TOTAL			275,500

OWNER'S NAME AND ADDRESS
(New Addresses Only)

BILLING INTEREST
(7 Decimals)

DATE APPROVED

APPROVED: (this space for approval only)

Cities Service Oil & Gas Corporation

.1666667

CITIES SERVICE OIL & GAS CORPORATION

By: _____

Title: _____

Company No. _____ AFE Type No. _____
 AFE No. _____ Property No. _____
 Acq. Name/Code: _____



CITIES SERVICE OIL AND GAS CORPORATION
P. O. BOX 1919 MIDLAND, TEXAS 79702

(915) 685-5600

January 8, 1985

TXO Production Corp.
900 Wilco Building
Midland, Texas 79701

Attention: Mr. Steve Pitts

RE: Lease Letter Agreement
R-1675-P
NW/4 NE/4 Section 14
T-18-S, R-38-E
Lea County, New Mexico
TXO - Taylor "N" Well

Pursuant to your letter of January 3, 1986, Cities Service Oil and Gas Corporation has reviewed the terms set out in this letter and our management still recommends the terms set out in our January 2, 1986 letter.

If the terms set out in the January 2, 1986 letter are acceptable to you, please advise and I will have the contract prepared.

If you should have any questions, feel free to contact me at 685-5765.

Very truly yours,

CITIES SERVICE OIL AND GAS CORPORATION

Danny Kidwell
Staff Landman

DK/gb



CITIES SERVICE OIL AND GAS CORPORATION
P. O. BOX 1919 MIDLAND, TEXAS 79702

(915) 685-5600

January 2, 1986

RECORDED

JAN 6 1986

TXO Production Corp.
900 Wilco Building
Midland, Texas 79701

Attention: Mr. Steve Pitts

RE: Lease Letter Agreement
R-1675-P
NW/4 NE/4 Section 14
T-18-S, R-38-E
Lea County, New Mexico
TXO - Taylor "N" Well

Gentlemen:

Pursuant to your letter dated November 5, 1985, Cities Service Oil and Gas Corporation, subject to final Management approval, agrees to grant you a farmout of our 1/6 mineral interest covering the referenced acreage on the following terms:

1. TXO Production Corp. will commence a 4,200-foot Queen test at a legal location on the referenced acreage on or before February 15, 1986.
2. Upon completion of the test well as a producer, Cities Service Oil and Gas Corporation will grant you an Oil and Gas Lease on the referenced acreage. The lease shall reserve Cities Service the lesser of all rights from 100-feet below total depth drilled in the test well, or the base of the Queen formation, whichever the lesser, and a 25% of 8/8 royalty interest proportionately reduced in all oil and gas produced thereunder to payout with the option to convert 1/8 of 8/8 to a 33-1/3% working interest after payout of such well.

If the above terms meet with your approval, sign one (1) copy of this letter in the space provided below and return to my attention by February 1, 1986. Upon receipt of your acceptance, I will have Tulsa prepare a formal agreement which will supersede this letter. Your failure to accept the formal agreement shall terminate this letter.

TXO Production Corp.

-2-

Lease Letter Agreement
Lea County, New Mexico

If you have questions, please feel free to contact me at 685-5765.

Very truly yours,

CITIES SERVICE OIL AND GAS CORPORATION



Danny Kidwell
Staff Landman

DK/gb

Agreed to and accepted this ___ day of January, 1986.

TXO PRODUCTION CORP.

By _____

P 139 239 247

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1984-446-014

PS Form 3800, Feb. 1982

Sent to Attn: Danny Kidwell Cities Service Oil & Gas	
Street and No. P. O. Box 1919	
P.O., State and ZIP Code Midland, Texas 79702	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3811, July 1983

DOMESTIC RETURN RECEIPT

● **SENDER: Complete items 1, 2, 3 and 4.**

Put your address in the "RETURN TO" space on the reverse side. Failure to do so will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

- Show to whom, date and address of delivery.
- Restricted Delivery.
Proposal-Taylor "N" #1 Well
- Article Addressed to:

Cities Service Oil & Gas Corp.
P. O. Box 1919
Midland, Texas 79702
Attn: Danny Kidwell

4. Type of Service:	Article Number
<input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	P 139-239 247 RETURN RECEIPT REQUESTED

Always obtain signature of addressee or agent and DATE DELIVERED.

- Signature - Addressee
X
- Signature - Agent
[Signature]
- Date of Delivery
JAN 1983
- Addressee's Address (ONLY if requested and fee paid)

January 3, 1986

Cities Service Oil & Gas Corporation
P. O. Box 1919
Midland, Texas 79702

Attention: Mr. Danny Kidwell

CERTIFIED MAIL

RE: Well Proposal
Taylor "N" #1 Well
NW/4 of NE/4 Section 14
T-18-S, R-38-E, NMPM
Lea County, New Mexico

Dear Mr. Kidwell:

In accordance with our telephone conversation of January 2, 1986, and my letter of December 11, 1985, TXO would be willing to farm your interest on the following terms:

1. By drilling a 4200' Queen Test at a location 660 feet from the North line and 1980 feet from the East line, Section 14, T-18-S, R-38-E, Lea County, New Mexico, TXO would earn a lease from you of all your right, title and interest in the proration unit on said acreage to 100 feet below the deepest depth drilled.
2. Cities Service will deliver a 75% net revenue lease to TXO with an option, at payout, to convert 1/2 of its 25% of 8/8 royalty interest to a 25% working interest, proportionately reduced.

TXO has already acquired a Farmout on this acreage with the Farmor delivering a 75% net revenue lease with an option at payout to convert its overriding interest to a 25% working interest, proportionately reduced.

As an alternative to farming-out your interest, Cities may join in the drilling of the Taylor "N" #1 Well. If you would like to participate in the drilling of said well, please sign one copy of the enclosed AFE and return it to the attention of the undersigned at the letterhead address.

If you elect to join in the drilling of this well, or alternatively, lease under the aforementioned lease terms, please advise and I will prepare the respective agreements and forward them for your execution as soon as possible.

Thank you. Should you have any further questions, please do not hesitate to call me at 682-7992.

Very truly yours,

Steve Pitts
Landman

SP/dlt
Enclosure -

**AUTHORITY FOR EXPENDITURE
DRILLING WELL — TXO AND OUTSIDE OPERATED**

Date 12-12-85

DISTRICT West Texas WELL NAME Taylor "N" WELL NO. 1
 OPERATED BY TXO LOCATION 660' FNL & 1980' FEL, Sec 14, T-18-S, R-38-E DEPTH 4200'
 FIELD Bishop Canyon (Queen) COUNTY Lea STATE NM
 PREPARED BY Randy Cate SUBMITTED BY Randy Cate DALLAS DISTRICT

EXPENDITURE DESCRIPTION	QUANTITY	DESCRIPTION	EST. COST
DRILLING			
Surface & Intermediate Casing		350' 8 5/8"	4,200
Casinghead			4,000
Location Work		dirt work, damages, staking	15,000
Footage/Turnkey Drilling		4200' @ \$9.50/ft	39,900
Daywork Drilling		1 day @ \$4200/day	4,200
Rig Support			
Bits			
Supervision	10 days	\$250/day	2,500
Drilling Overhead			
Mud & Chemicals & wtr			6,500
Cementing Services & Supplies			5,000
Testing & Logging			8,000
Rentals			5,000
Other IDC		csg crew, trucking, etc.	6,000
Other Equipment			5,000
Legal			1,000
Non-Operated Intangible Drilling			
TOTAL DRILLING			106,300
COMPLETION			
Production Casing	4200'	4 1/2" 10.5# ST&C	19,600
Tubing	4200'	2 3/8" J-55	9,900
Wellhead Equipment			3,000
Subsurface Equipment			4,000
Supervision	10 days	\$250/day	2,500
Mud & Chemicals & wtr			2,000
Testing, Logging & Perforating		correlation log, temp svy, perf	6,500
Stimulation		acid & sand frac	26,000
Completion Overhead			
Rentals			5,000
Service Rig	10 days	\$1400/day	14,000
Cementing Services & Supplies			8,000
Other Completion IDC		csg crew, trucking, etc	5,000
Non-Operated Intangible Completion			
TOTAL COMPLETION			105,500
PRODUCTION EQUIPMENT			
Pumping Unit/Submersible Pump		160 pmp unit	21,000
Engine & Motor		gas engine	6,000
Rods			6,200
Flow Lines			2,000
Meters			5,000
Installation/Overhead			3,000
Storage		2-210 oil, 1-210 wtr	7,500
Separation & Treating		separator & HT	8,000
Other Equipment			5,000
TOTAL PRODUCTION EQUIPMENT			63,700
TOTAL			275,500

OWNER'S NAME AND ADDRESS
(New Addresses Only)

BILLING INTEREST
(7 Decimals)

DATE APPROVED

APPROVED: (this space for approval only)

CITIES SERVICE OIL & GAS CORPORATION

Cities Service Oil & Gas Corporation

.166667

By: _____

Title: _____

Company No. _____ AFE Type No. _____
 AFE No. _____ Property No. _____
 Acq. Name/Code: _____

P 547 296 595

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

* U.S.G.P.O. 1983-403-517

Sent to Cities Service O&G Corp	
Street and No. P. O. Box 1919	
P.O., State and ZIP Code Midland, TX 79702	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date December 12, 1985	

PS Form 3800, Feb. 1982

PS Form 3811, July 1983 447-945

SENDER: Complete items 1, 2, 3 and 4.

Put your Address in the "RETURN TO" space on the reverse side. Failure to do so will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.

- 1. Show to whom, date and address of delivery.
- 2. Restricted Delivery.

3. Article Addressed to:
 Cities Service Oil & Gas Corp.
 Attn: Mr. Danny Kidwell
 P. O. Box 1919
 Midland, Texas 79702

4. Type of Service:	Article Number
<input type="checkbox"/> Registered <input type="checkbox"/> Insured	P 547 296 595
<input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD	
<input type="checkbox"/> Express Mail	

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Addressee

X

6. Signature - Agent

X

7. Date of Delivery

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



Well Proposal-Farmout Request - Taylor "N" #1 Well

DOMESTIC RETURN RECEIPT

December 11, 1985

Cities Service Oil & Gas Corporation
P. O. Box 1919
Midland, Texas 79702

Attention: Mr. Danny Kidwell

Re: Well Proposal
Taylor "N" #1 Well
NW/4 NE/4 Section 14,
T-18-S, R-38-E
Lea County, New Mexico

Dear Mr. Kidwell:

In accordance with TXO's previous correspondence regarding, among other lands, the captioned acreage in Lea County, TXO Production Corp. hereby proposes the drilling of the Taylor "N" #1 Well. Said well is a 4200' Queen test, at a location 660' FNL & 1980' FEL Section 14, T-18-S, R-38-E, Lea County, New Mexico. Enclosed please find two copies of our Authority for Expenditure (AFE) for the drilling of this well.

At this time, TXO seeks your election to join in the well. If you would like to participate in the drilling of said well, please sign one copy of the AFE and return it to the attention of the undersigned at the letterhead address.

As an alternative to joining in this well, TXO would be willing to farmin your interest on the following terms:

1. By drilling a well at the above referenced legal location to test the Queen formation, TXO would earn a Lease from you of all your right, title, and interest in the proration unit on said acreage to 100" below the deepest depth drilled.
2. Cities Service will deliver a 75% net revenue Lease to TXO with an option at payout to convert its royalty interest to a 25% working interest, proportionately reduced.

If you elect to join in the drilling of this well or alternatively, lease under the aforementioned lease terms, please advise and the respective agreements will be prepared and forwarded for your execution. TXO would be appreciative of an answer as soon as possible.

Due to TXO's rig schedule and drilling obligations, TXO has filed a compulsory pooling application with the New Mexico Oil Conservation

December 11, 1985
Cities Service Oil & Gas Corporation
Page two

Commision to include all uncommitted interest in the proration unit of the Taylor "N" #1 well. TXO regrets the necessity of including your interest in the compulsory pooling application; but, it is necessary due to the above noted circumstances.

Should you need any additional information regarding this proposal, please do not hesitate to contact me at the above address or call 682-7992.

Very truly yours,

Steve Pitts
Landman

SP/dp
Enclosure

AUTHORITY FOR EXPENDITURE
DRILLING WELL — TXO AND OUTSIDE OPERATED

Date 12-12-85

DISTRICT West Texas WELL NAME Taylor "N" WELL NO. 1
 OPERATED BY TXO LOCATION 660' FNL & 1980' FEL, Sec 14, T-18-S, R-38-E DEPTH 4200'
 FIELD Bishop Canyon (Queen) COUNTY Lea STATE NM
 PREPARED BY Randy Cate SUBMITTED BY Randy Cate DALLAS DISTRICT _____
W.M.M.

EXPENDITURE DESCRIPTION	QUANTITY	DESCRIPTION	EST. COST
DRILLING			
Surface & Intermediate Casing		350' 8 5/8"	4,200
Casinghead			4,000
Location Work		dirt work, damages, staking	15,000
Footage/Turnkey Drilling		4200' @ \$9.50/ft	39,900
Daywork Drilling		1 day @ \$4200/day	4,200
Rig Support			
Bits			
Supervision	10 days	\$250/day	2,500
Drilling Overhead			
Mud & Chemicals & wtr			6,500
Cementing Services & Supplies			5,000
Testing & Logging			8,000
Rentals			5,000
Other IDC		csg crew, trucking, etc.	6,000
Other Equipment			5,000
Legal			1,000
Non-Operated Intangible Drilling			
TOTAL DRILLING			106,300
COMPLETION			
Production Casing	4200'	4 1/2" 10.5# ST&C	19,600
Tubing	4200'	2 3/8" J-55	9,900
Wellhead Equipment			3,000
Subsurface Equipment			4,000
Supervision	10 days	\$250/day	2,500
Mud & Chemicals & wtr			2,000
Testing, Logging & Perforating		correlation log, temp svy, perf	6,500
Stimulation		acid & sand frac	26,000
Completion Overhead			
Rentals			5,000
Service Rig	10 days	\$1400/day	14,000
Cementing Services & Supplies			8,000
Other Completion IDC		csg crew, trucking, etc	5,000
Non-Operated Intangible Completion			
TOTAL COMPLETION			105,500
PRODUCTION EQUIPMENT			
Pumping Unit/Submersible Pump		160 pmp unit	21,000
Engine & Motor		gas engine	6,000
Rods			6,200
Flow Lines			2,000
Meters			5,000
Installation/Overhead			3,000
Storage		2-210 oil, 1-210 wtr	7,500
Separation & Treating		separator & HT	8,000
Other Equipment			5,000
TOTAL PRODUCTION EQUIPMENT			63,700
TOTAL			275,500

<u>OWNER'S NAME AND ADDRESS</u> (New Addresses Only)	<u>BILLING INTEREST</u> (7 Decimals)	<u>DATE APPROVED</u>	<u>APPROVED: (this space for approval only)</u>
Cities Service Oil & Gas Corporation	.166667		CITIES SERVICE OIL & GAS CORPORATION
			By: _____
			Title: _____

Company No. _____ AFE Type No. _____
 AFE No. _____ Property No. _____
 Acq. Name/Code: _____



CITIES SERVICE OIL AND GAS CORPORATION
P. O. BOX 1919 MIDLAND, TEXAS 79702

(915) 685-5600

November 13, 1985

TXO Production Corp.
900 Wilco Building
Midland, Texas 79701

Attention: Mr. Vance Hodge

Re: Lease Letter Agreement
R-1675-P
Section 14: E/2, E/2 W/2
T-18-S, R-38-E, N.M.P.M.
Lea County, New Mexico
TXO - Taylor "N" Well

Gentlemen:

Pursuant to your letter dated November 5, 1985, Cities Service Oil and Gas Corporation, subject to final Management approval, agrees to grant you a farmout of our 1/6 mineral interest covering the referenced acreage on the following terms:

1. TXO Production Corp. will commence a 4,200-foot Queen test at a legal location of their choice on the referenced acreage on or before February 15, 1986.
2. Upon completion of the initial test well as a producer, Cities Service Oil and Gas Corporation will grant you an Oil and Gas Lease on the minimum proration unit as designated by the New Mexico Oil Conservation Commission. The lease shall reserve Cities Service the lesser of all rights from 100 feet below Total Depth drilled in the initial test well, or the Base of the Queen formation, and a 25% of 8/8 royalty interest proportionately reduced in all oil and gas produced thereunder to payout with the option to convert 1/8 of 8/8 to a 33-1/3% working interest after payout of such well. In addition, you will receive successive 120-day options to drill additional wells and earn an Oil and Gas Lease on the respective proration units, until said lands shall be developed to the maximum density permitted by the New Mexico Oil Conservation Commission.

TXO Production Corp.
Attn: Mr. Vance Hodge

-2-

November 13, 1985

If the above terms meet with your approval, sign one (1) copy of this letter in the space provided below and return to my attention. Upon receipt of your acceptance, I will have Tulsa prepare a formal agreement which will supersede this letter. Your failure to accept the formal agreement shall terminate this letter.

If you have any questions, please feel free to contact me at 685-5765.

Yours very truly,

CITIES SERVICE OIL AND GAS CORPORATION



Danny Kidwell
Senior Landman

DK:eh

AGREED TO AND ACCEPTED
This _____ day of _____, 1985.

TXO PRODUCTION CORP.

By _____

TXO PRODUCTION CORP.
900 WILCO BUILDING
MIDLAND, TEXAS 79701
915 682-7992

November 5, 1985

Cities Service Oil & Gas Corp.
P. O. Box 1919
Midland, TX 79702

Attn: Danny Kidwell

Re: Section 14, E/2, E/2 W/2,
T-18-S, R-38-E, N.M.P.M.
Lea County, New Mexico

Dear Mr. Kidwell:

As per our telephone conversation on October 31, 1985, please be advised that TXO Production Corp. would be interested in taking a farmout on the above captioned acreage. TXO would be agreeable to farmin on the following terms:

1. Within one hundred and eighty (180) days after execution of a mutually acceptable agreement, TXO would commence the actual drilling of a 4200' Queen test at a location of TXO's choice.
2. Cities will deliver a 75% net revenue lease to TXO with an option at payout to convert its royalty interest to a 25% working interest, proportionately reduced.
3. TXO will be entitled to a one hundred and twenty (120) days continuous development program.
4. Cities would agree to furnish TXO with whatever title information it has in its files in connection with this property.

This offer is subject to a mutually acceptable agreement and TXO management approval.

Attached here please find your letter dated April 26, 1985 for reference. Your consideration of this request at your earliest convenience is greatly appreciated.

Very truly yours,

Vance Hodge
Petroleum Landman

VH/sf
Enclosure



CITIES SERVICE OIL AND GAS CORPORATION
P. O. BOX 1919 MIDLAND, TEXAS 79702

(915) 685-5600

April 26, 1985

TXO Production Corp.
900 Wilco Building
Midland, Texas 79701

Attention: Mr. Vance Hodge

Re: Lease Letter Agreement
R-1675-P
Section 14: E/2, E/2 W/2
T-18-S, R-38-E, N.M.P.M.
Lea County, New Mexico
TXO - Taylor "N" Well

Gentlemen:

Pursuant to your letter dated January 24, 1985, Cities Service Oil and Gas Corporation, subject to final Management approval, agrees to grant you a farmout of our 1/6 mineral interest covering the referenced acreage on the following terms:

1. TXO Production Corp. will commence a 4,200-foot Queen test at a location 660' FNL and 1980' FEL of Section 14, T-18-S, R-38-E, N.M.P.M. on or before July 30, 1985.
2. Upon completion of the initial test well as a producer, Cities Service Oil and Gas Corporation will grant you an Oil and Gas Lease on the minimum proration unit as designated by the New Mexico Oil Conservation Commission. The lease shall reserve Cities Service, the lesser of, all rights from 100 feet below Total Depth drilled in the initial test well or the Base of the Queen formation, and a 25% of 8/8 royalty interest proportionately reduced, in all oil and gas produced thereunder to payout with the option to convert 1/8 of 8/8 to a 33-1/3% working interest after payout of such well. In addition, you will receive successive 120-day options to drill additional wells and earn an Oil and Gas Lease on the respective proration units, until said lands shall be developed to the maximum density permitted by the New Mexico Oil Conservation Commission.

TXO Production Corp.
Attn: Mr. Vance Hodge

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April 26, 1985

If the above terms meet with your approval, sign one (1) copy of this letter in the space provided below and return to my attention. Upon receipt of your acceptance, I will have Tulsa prepare a formal agreement which will supersede this letter. Your failure to accept the formal agreement shall terminate this letter.

If you have any questions, please feel free to contact me at 685-5765.

Yours very truly,

CITIES SERVICE OIL AND GAS CORPORATION


Danny Kidwell
Senior Landman

DK:eh

AGREED TO AND ACCEPTED

This _____ day of _____, 1985

TXO PRODUCTION CORP.

By _____

TXO PRODUCTION CORP.
900 WILCO BUILDING
MIDLAND, TEXAS 79701
915/682-7992

Copy

April 10, 1985

Cities Service Oil & Gas Corp.
P. O. Box 1919
Midland, TX 79702

Attn: Danny Kidwell

Re: West 3/4 Section 14, T-18-S, R-38-E,
Lea County, New Mexico

Dear Danny:

Per our telephone conversation on April 10, 1985, enclosed please find an AFE concerning the above captioned acreage.

I hope this expedites matters. I look forward to hearing from you at your earliest convenience.

Very truly yours,


Vance Hodge
Landman

VH/sf
Enclosure

January 24, 1985

Cities Service Oil Company
P. O. Box 1919
Midland, Texas 79702

Attn: Danny Kidwell

Re: Lease Proposal
Section 14: E/2, E/2W/2
T-18-S, R-38-E,
Lea County, New Mexico

Gentlemen:

TXO Production Corp. respectfully requests a lease/farmout of your mineral interest in the above referenced tract. TXO would be agreeable to lease/farmin on the following terms:

1. Within 180 days after execution of a mutually acceptable agreement, TXO would commence the actual drilling of a 4200 foot Queen test at a location of TXO's choice.
2. Cities Service will deliver a 75% net revenue lease to TXO with an option at payout to convert its royalty interest to a 25% working interest, proportionately reduced.
3. TXO will be entitled to a 120 day continuous development program.
4. Cities Service would agree to furnish TXO with whatever title information it has in its files in connection with this property.

This offer is subject to a mutually acceptable agreement and TXO management approval.

Your consideration of this request at your earliest convenience is greatly appreciated.

Very truly yours,

Jeff Bourgeois
Landman

JB/dp