



November 4, 1999

Mr. Steve Jordan
T.H. McElvain Oil & Gas
409 Saint Michaels
Santa Fe, NM 87504-2148

Re: Farmout Proposal
Cougar Com 33 #1 Well
S/2: Section 33, T26N-R2W
Rio Arriba County, New Mexico

Dear Steve:

Reference is made to your letter dated September 1, 1999 proposing to drill the captioned well and requesting Energen Resources Corporation (Energen) join or non-consent under the terms of the Operating Agreement enclosed with your letter. Subsequently Energen proposed to farmout its interest under the same terms as we had previously agreed to in conjunction with your Seifert Com #1 well located in the SE/4 of Section 22, T26N-R2W, approximately two miles northeast of the location for the Cougar Com 33 #1, and our Carson wells located in T30N-R3W. You indicated the terms might not be acceptable due to the risk involved with this well, but would let me know.

I have written a Farmout which provides for McElvain to earn 100% of Energen's interest in the drillsite spacing unit subject to Energen's retention of a 5% overriding royalty interest, convertible to a 40% working interest at payout.

While writing this letter, you and I had further discussions on the terms proposed by Energen versus what would be acceptable to McElvain. Based on our latest phone conversation, Energen has revised the terms of its Farmout proposal to allow for the retention of a proportionately reduced 2.5% overriding royalty interest convertible to a 25% working interest upon payout.

NMOCD CASE NO. 12284
DECEMBER 2, 1999
ENERGEN EX. NO. 6

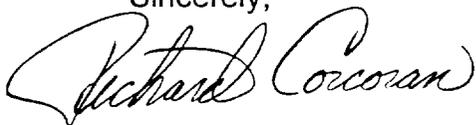
Farmout Proposal
Cougar Com 33 #1 Well
S/2: Section 33, T26N-R2W
Rio Arriba County, New Mexico
Page 2 of 2

As Energen's before farmout interest is 11.71875% of the proposed spacing unit, the new terms represent a total burden of 0.29296% overriding royalty interest convertible to a 2.92968% working interest after payout. We have reduced the overriding royalty interest retained from the original amount 270% (from 6.75% to 2.5%) and the backin 160% (from 40% to 25%).

You will note we have incorporated your Operating Agreement into our Farmout, changing only the amount of royalty on page 2, line 14, to 18.75% which is the amount due under our lease; on page 13, Article XIII we have selected option number 2, and changed the effective date to November 1, 1999 throughout the Operating Agreement.

We request you execute and return one signature page to the Farmout Agreement and the Operating Agreement and release us from the compulsory pooling hearing set for November 18, 1999.

Sincerely,

A handwritten signature in cursive script that reads "Richard Corcoran". The signature is written in black ink and is positioned to the left of the typed name.

Richard Corcoran
District Landman

RC/tm
Enclosures

FARMOUT AGREEMENT

THIS Farmout Agreement is entered into the 1st day of November, 1999 by and between **Energen Resources Corporation**, 2198 Bloomfield Highway, Farmington, New Mexico 87401 (hereinafter referred to as "FARMOR") and **McElvain Oil & Gas Limited Partnership**, PO Box 2148, Santa Fe, New Mexico 87504 (hereinafter referred to as "FARMEE").

A. EXHIBITS

The following exhibits are attached hereto and shall be considered part of this Farmout Agreement.

Exhibit A General Terms and Conditions which shall apply except to the extent they are in conflict with the body hereof.

Exhibit B Schedule of Farmout lands, describing oil and gas leases subject hereto.

Exhibit C Operating Agreement and additional exhibits attached thereto.

B. EARNING WELL

1. Well Specifications. FARMEE shall drill a well ("Earning Well") strictly in accordance with the following specifications:
 - a. Location: FARMEE's choice of location in the NW/4 SE/4 of Section 33, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.
 - b. Spudding Deadline: On or before December 31, 1999.
 - c. Required Depth: To a depth sufficient to test the Dakota formation.
 - d. Completion/Plugging Deadline: Within sixty (60) days from the date of commencing.
2. Conditions to Earn. In order for the Earning Well to earn the assignment set forth in B.3 herein, FARMEE must have complied with all of its obligations under this Farmout Agreement, including the foregoing well specifications, and the Earning Well must have been completed as a producer of oil and/or gas in paying quantities.
3. Earned Assignment. As soon as practicable after FARMOR is satisfied that FARMEE has complied with the requirements of Section B.1 and that the Earning Well has been timely and properly completed as a producer of oil and/or gas in paying quantities, FARMOR shall deliver to FARMEE the following:
 - a. An Assignment without warranty, conveying to FARMEE an undivided 100% of FARMOR's respective operating rights interest under the E/2 SW/4, SW/4 SW/4, SW/4 SE/4 of Section 33, T26N-R2W, Rio Arriba County, New Mexico subject to the reserved override described in Section D below, and subject to the following area and depth limitations.
 - i. Limited to the "drilling unit" for the well as defined in Paragraph 3 of Exhibit A;
 - ii. Limited to the interval between the base of the Pictured Cliffs formation and the base of the Dakota formation only, as defined in the wireline electric log of the earning well.

C. RESERVED OVERRIDE

1. Reservation. In the Assignment made by FARMOR pursuant to the terms hereof, FARMOR shall reserve and retain an overriding royalty interest in production from the Earning Well and all lands so assigned, equal to five percent (5%) of 8/8ths of all production, reduced in proportion to the assigned interest and calculated in accordance with Section D.2 herein. Said overriding royalty shall be exclusive of, and in addition to, any other overriding royalty attributable to the assigned interest.
2. Calculation and Payment. Any royalty or overriding royalty reserved by FARMOR hereunder shall be based on the volume of oil, gas and other minerals produced and saved from the Earning Well, and from any subsequent well or wells drilled on the lands subject hereto, (as described on Exhibit B) reduced in proportion to the interest conveyed. At FARMOR's option, exercised by written notice to FARMEE, the overriding royalty shall be delivered in kind into FARMOR's tanks as produced or paid monthly on the basis of the gross value of production during the preceding calendar months. For the purpose of this Agreement, "gross value" means the gross proceeds actually received by the FARMEE in an arm's-length sale of the production, or, in the absence of an arm's-length sale, the prevailing market value of the production at the wellhead. Any overriding royalty reserved shall be free and clear of all costs except applicable production taxes or severance taxes.
3. Conversion. FARMOR'S reserved overriding royalty interest shall be convertible, at FARMOR'S election after payout of the Earning Well, to an undivided working interest equal to 25% of the working interest heretofore covered by the Assignment. Quarterly overriding royalty payments by FARMEE hereunder shall be accompanied by a statement showing cumulatively and for the period covered by the statement, the following information in reasonable detail:
 - a. The farmout cost, which is the cost incurred by FARMEE in drilling, testing, re-working, completing, equipping and operating the Earning Well as calculated in accordance with the Accounting Procedure attached to the Operating Agreement as Exhibit "C" insofar as said cost is attributable to the interest assigned to FARMEE hereunder.
 - b. The farmout revenue, which is the gross value of production as defined in Section C2 above, less (i) applicable production taxes or severance taxes or excise taxes, and less (ii) all royalties, overriding royalties and other such payments out of production which, as of the effective date hereof, burden the interest assigned to FARMEE hereunder and less (iii) royalty or overriding royalty taken-in-kind, the calculation of farmout revenue shall be made as though the overriding royalty had been paid on the basis of the gross value of production as hereinabove defined.

At such time as the farmout revenue equals the farmout cost, as shown by FARMEE's quarterly statements, the Earning Well shall be considered as having achieved "payout" status. FARMOR may exercise its conversion right by written notice to FARMEE within thirty (30) days after receipt of FARMEE's quarterly statement showing that the payout status has been achieved. Upon receipt of such notice, FARMEE shall promptly re-assign to FARMOR the working interest FARMOR is entitled to receive hereunder (including an equivalent interest in the Earning Well and all subsequent production therefrom) effective as of 7:00 am of the first day of the calendar month next following the date of payout, and FARMOR's overriding royalty shall thereupon be extinguished. The re-assignment to FARMOR shall be without warranty, express or implied, but shall be free and clear of all royalties, overriding royalties and other payments out of production, except those in existence as of the effective date of this Farmout Agreement.

If after the Earning Well has been drilled and completed as a well capable of commercial production, an infill, re-drill or subsequent well of any type is proposed prior to the Earning Well having reached payout, then FARMOR shall be considered to have its after payout interest except as to the borehole of the Earning Well.

D. OPERATING AGREEMENT

At such time that the Earning Well reaches payout and FARMOR elects to convert the reserved overriding royalty to a working interest, or at such time as subsequent drilling operations are proposed and commenced, the parties hereto shall be deemed to have entered into the Operating Agreement attached hereto as Exhibit "C".

DELAY RENTALS

From and after the date hereof, FARMEE shall be responsible for paying and assuming all of FARMOR's delay rental, minimum royalty, or shut-in-well obligations with respect to the lands subject to this Agreement.

E. NOTICES AND WELL INFORMATION

1. In General. All notice and well information to be given to FARMOR hereunder shall be given to FARMOR as provided in Section 7.2 of Exhibit A.

G. EXECUTION

This Farmout Agreement shall be null and void if it is not executed by FARMEE and returned to FARMOR on or before November 30, 1999.

FARMOR

ENERGEN RESOURCES CORPORATION

Date: _____

FARMEE

T.H. McELVAIN OIL & GAS LIMITED PARTNERSHIP

BY: _____

BY: _____

TITLE: _____

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E. NOTICES AND WELL INFORMATION

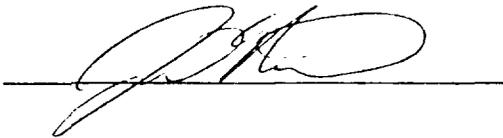
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FARMOR

ENERGEN RESOURCES CORPORATION



Date: _____

FARMEE

T.H. McELVAIN OIL & GAS LIMITED PARTNERSHIP

BY: _____

BY: _____

TITLE: _____

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

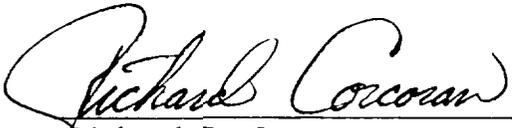
IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of November, 1999.

OPERATOR

McELVAIN OIL & GAS PROPERTIES INC.

NON-OPERATORS

ENERGEN RESOURCES CORPORATION



Richard P. Corcoran
District Landman



Joe B. Niederhofer
General Manager - San Juan Basin

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EXHIBIT A

Page 1 of 5

Attached to and made a part of that certain Farmout Agreement dated November 1, 1999 by
and between Energen Resources Corporation, as FARMOR and T.H. McElvain Oil & Gas
Limited Partnership, as FARMEE

GENERAL TERMS AND CONDITIONS OF FARMOUT AGREEMENT

1. TITLES AND ACCESS TO FARMOUT LANDS.

- 1.1 Title Information. Within ten (10) days after written request by FARMEE, FARMOR shall furnish to FARMEE copies of all title opinions, abstracts of title and other title information in FARMOR's possession with respect to the Farmout Lands, but the furnishings of such items shall not be construed as a warranty or representation by FARMOR of title or ownership. Any curative work or additional title examination required by FARMEE shall be conducted by FARMEE at its sole cost and risk. FARMEE shall provide FARMOR a copy of any such title examination or curative work performed.
- 1.2 Access by FARMEE and FARMOR. FARMEE and its contractors and subcontractors shall be entitled to exercise all of FARMOR's rights of ingress and egress for the purpose of conducting operations hereunder. FARMOR shall endeavor to advise FARMEE of any unusual limitations or restrictions on such ingress and egress, and FARMEE and its contractors or subcontractors shall comply therewith. During FARMEE's operations hereunder, FARMOR's representatives, at FARMOR's sole risk, shall have access at all times to the wellsite, including the derrick floor, for the purpose of observation. All information requested by FARMOR concerning such operations shall be promptly furnished by FARMEE.

2. CONDUCT OF OPERATIONS.

- 2.1 Cost and Risk. All operations conducted by FARMEE under this Farmout Agreement shall be conducted at FARMEE's sole cost and risk, and subject to the indemnity provisions in Paragraph 4.2 below.
- 2.2 Performance Standards. All operations conducted by FARMEE under this Farmout Agreement shall be conducted in a diligent and workmanlike manner, and in accordance with all applicable federal, state and local laws, regulations and orders. It is specifically understood that time is of the essence in FARMEE's performance hereunder. In its operations, FARMEE shall obtain such cuttings, cores, logs, production tests, pressure tests, fluid analyses and such other well information as FARMOR may direct or as a prudent operator would otherwise obtain under the same or similar circumstances.
- 2.3 Lease Obligations. Except as otherwise provided in the body of this Farmout Agreement, FARMEE shall at its sole cost and risk, comply with all of the obligations and covenants of the oil and gas lease included in the Farmout Lands, including the payment of royalties, shut-in royalties and delay rentals, and the cost of any renewals or extensions of such leases.
- 2.4 Notice of Cessation of Production. If any well on the Contract Premises, or any well on lands with which Contract Premises are pooled, is completed as a commercial producer of oil or gas and ceases to produce or is shut-in subsequent to the commencement of production, Operator shall notify FARMOR by certified or registered mail no later than thirty (30) days from date of either such occurrence. Such notification shall also include the reasons that the well is off production and plans of Operator for re-establishing production or plugging the well. If Operator plans remedial action, Operator shall keep FARMOR advised as to the status of its work, such notifications to be sent to FARMOR on each Monday following the original notification until the well is placed back on production.

EXHIBIT A

Page 2 of 5

- 2.5 Completion or Plugging. In the event FARMEE has earned an interest because the Earning Well has been drilled to the required depth, said well shall be promptly completed and equipped to produce if it is otherwise capable of producing oil and/or gas in paying quantities, or shall be promptly plugged if it is not capable of producing in paying quantities.
- 2.6 Further Operations. In the event FARMEE has failed to earn an interest, because the Earning Well has not been drilled to the required depth or because completion of the well as a producer in paying quantities is required to earn but the well is not capable of such production, further operations on the well shall be governed by the following procedure:
- a. While the drilling rig is on the well, or within ten (10) days after its removal, FARMEE shall give FARMOR written notice describing the status of the well and stating whether or not FARMEE elects to drill a substitute well. Failure to make such an election shall be considered an election not to drill a substitute well.
 - b. If FARMEE elects to drill a substitute well and if FARMOR concurs that the original well was drilled to the required depth but is not capable of producing in paying quantities, or concurs that the original well failed to reach the required depth because of mechanical problems or impenetrable strata or other conditions in the hole which make further drilling impracticable, FARMOR shall advise FARMEE within ten (10) days after receipt of FARMEE's notice (or seventy-two (72) hours if the rig is on location) to plug the original well and proceed with the substitute well as provided in Paragraph 2.7 below.
 - c. If FARMEE elects not to drill a substitute well, or if FARMEE is not entitled to do so as hereinabove provided, FARMOR shall advise FARMEE within ten (10) days after receipt of FARMEE's notice (or seventy-two (72) hours if the rig is on location) whether or not FARMOR elects to take over the original well pursuant to Paragraph 2.8 below. If FARMOR elects not to take over the well or fails to make an election, FARMEE shall promptly plug the original well. In either event, FARMEE shall have no right to drill a substitute well in order to earn an interest as provided in the body of this Agreement.
- 2.7 Substitute Well. Any substitute well drilled by FARMEE hereunder shall actually be spudded within thirty (30) days after FARMEE's election to drill it, and the well shall be drilled, tested and completed or plugged in accordance with all of the requirements specified herein for the original well and with the same consequences. The substitute well shall be considered as the Earning Well for all purposes of this Agreement.
- 2.8 Takeover by Farmor. If FARMOR elects to take over a well hereunder, the effective date of the takeover shall be seventy-two (72) hours after the date of FARMOR's election to do so or when FARMOR takes actual custody of the well, whichever is earlier. As soon as practicable thereafter, FARMOR shall reimburse FARMEE for the estimated salvage value of FARMEE's salvageable equipment in and on the well, less estimated salvage cost. The well and equipment shall thereupon be owned by FARMOR, and FARMEE shall have no further rights or obligations under this Farmout Agreement, except rights and obligations, including liabilities, accrued prior to the effective date of the takeover.

EXHIBIT A

3. SCOPE OF ASSIGNMENT.

- 3.1 Drilling Unit. Whenever an interest earned hereunder is to relate to the "drilling unit" for the Earning Well, the term "drilling unit" means the area within the surface boundaries of the drilling unit or spacing unit or proration unit (as the case may be) then established or prescribed by field rules or special order of the appropriate regulatory authority for the objective reservoir or the reservoir in which the Earning Well is completed. In the absence of such field rules or special order, the drilling unit shall be 160 acres if the Earning Well is completed as a gas well and 80 acres if the Earning Well is completed as an oil well.
- 3.2 Default by Farmee. If FARMEE defaults in the timely and proper performance of any of its obligations pursuant to this Farmout Agreement, FARMEE shall earn no interest and shall have no rights hereunder, except rights earned prior to the default. Upon such default, in addition to any other available legal or equitable remedies, FARMOR may direct FARMEE to promptly plug the well then being drilled, if any, or FARMOR may notify FARMEE of FARMOR's election to take over the well pursuant to Paragraph 2.8 above.

4. LIABILITY AND INSURANCE.

- 4.1 Relationship of Parties. In performing its obligations hereunder, FARMEE shall be an independent contractor, and not the agent of FARMOR. Nothing herein shall be construed as operating a partnership or otherwise establishing joint or collective liability.
- 4.2 Farmor's Indemnity. FARMEE shall indemnify and hold harmless FARMOR and its employees and agents from all claims, demands, losses and liabilities of every kind and character arising out of FARMEE's performance or failure to perform hereunder, or the acts or failure to act by FARMEE's employees, agents, contractors and subcontractors.
- 4.3 Required Insurance Coverage. At all times while FARMEE has the right to earn an assignment of interest hereunder, FARMEE shall maintain at its sole cost the following insurance coverage for its operations:
- a. Workman's Compensation Insurance and Employer's Liability Insurance with such limits as are specified by law in the jurisdiction in which the Farmout Lands are located.
 - b. Comprehensive General Public Liability Insurance (including Contractual Liability coverage) with limits not less than \$1,000,000 per person and \$2,000,000 per occurrence for bodily injury and \$1,000,000 per occurrence for property damage.
 - c. Automobile Liability Insurance with the same limits as prescribed above for Comprehensive General Public Liability Insurance.
- 4.4 Proof of Coverage. Prior to the commencement of operations hereunder, FARMEE shall furnish FARMOR one or more certificates signed by the insurance carrier or carriers showing to FARMOR's satisfaction that the required insurance coverage described above is then in force, and stating that such coverage shall not be canceled or materially altered without at least ten (10) days advance written notice to FARMOR. Such cancellation or material alteration, if not accompanied by new insurance coverage satisfactory to FARMOR, shall constitute a default by FARMEE under Paragraph 3.2 above. Each certificate shall also contain a waiver by the insurance carrier of any right to be subrogated to the rights of any claimant against FARMOR or FARMOR's employees and agents, except that the carrier shall be subrogated to the rights of FARMEE against FARMOR with respect to any risks expressly assumed by FARMOR hereunder

4.5 Tax Partnership Elections. The parties hereto hereby agree to and hereby do elect under the authority of Section 761 (a) of the Internal Revenue Code of 1954 and the regulation thereunder, that this contract and all operation hereunder be excluded from the application of any and all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, and each of the parties hereto agrees to execute whatever instruments as may be required to effect this intent.

5. ASSIGNMENTS AND ENCUMBRANCES.

This Farmout Agreement shall be binding on the respective heirs, successors and assigns of the parties hereto. FARMOR or FARMEE may freely assign or encumber its interest hereunder at any time, but the party transferring or encumbering its interest shall give written notice to the other party, prior to the time such action is taken.

6. RENEWALS AND EXTENSIONS.

If any oil and gas lease included in the Farmout Lands is extended or renewed in whole or in part by the FARMEE, or any agreement of whatever character is acquired by the FARMEE which continues the oil and gas lease in force, then the FARMEE agrees to convey to FARMOR the same rights and interest in the Farmout and/or Option Lands and production therefrom as the FARMOR has reserved under the provisions of this Agreement. For this purpose, any lease or leases acquired within one hundred eighty (180) days after the expiration of the original lease shall be considered an extension or renewal thereof.

7. CONDUCTION OF OPERATIONS.

7.1 Conduct of Operations. FARMEE shall, with respect to drilling any well pursuant to the provision of the Agreement to which this Exhibit A is attached, notify ENERGEN RESOURCES CORPORATION sufficiently in advance of any of the following events so that a representative may be present to witness the same.

- a. Spudding of well
- b. Any coring operations
- c. All drill stem or other tests of said well
- d. The running of any electric log or other survey
- e. Any plugging operation

Notice of any of the above events should be directed to one of the following:

Joe D. Niederhofer
General Manager, San Juan (505) 326-6131 office
(505) 324-2127 home

Gary Brink
Production Superintendent (505) 326-6134 office
(505) 326-7636 home

7.2 Reports to be Furnished to Energen Resources Corporation. Operator will furnish daily by telephone or facsimile at its expense, a current progress report with full information on completing and testing of the subject well to:

Vicki Donaghey (505) 325-6800

In addition, one copy of the Operator's daily report to be mailed or delivered daily during the drilling, completing and testing

One copy of all notices, reports and other communications required by State and/or Federal regulations to be sent by regular mail.

Two field prints and one final print of all wireline surveys.

If mud logging unit is employed, one copy of daily log or chart with one final print to be furnished upon completion of the test well.

EXHIBIT B

Page 1 of 1

Attached to and made a part of that certain Farmout Agreement dated November 1, 1999 by and between Energen Resources Corporation, as FARMOR and T.H. McElvain Oil & Gas Limited Partnership, as FARMEE

1. FARMOUT LANDS.

Township 26 North, Range 2 West, Rio Arriba County, New Mexico

Section 33: E/2 SW/4, SW/4 SW/4, SW/4 SE/4

Oil and Gas Lease:

That certain oil and gas lease dated December 19, 1978 between Rita Louise Willis and Bank of Oklahoma, N.A., Co-trustees of the Rita Louise Willis Trust, as Lessor, and Roy G. Miller, as Lessee, recorded in Book 86, Page 806 of the records of Rio Arriba County, New Mexico.

Depth limit:

Limited to the interval between the base of the Pictured Cliffs formation and the base of the Dakota formation.

EXHIBIT "C"

Attached to and made a part of that certain Farmout Agreement dated November 1, 1999 between Energen Resources Corporation, as FARMOR, and T.H. McElvain Oil & Gas Properties, Inc., as FARMEE.

COUGAR COM 33 #1

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 1 , 19 99 ,

OPERATOR McElvain Oil & Gas Properties, Inc.

CONTRACT AREA TOWNSHIP 26 NORTH, RANGE 2 WEST, N.M.P.M.

Section 33: S/2

Limited to depths from the base of the Pictured Cliffs

formation to the base of the Dakota formation

COUNTY OR PARISH OF Rio Arriba STATE OF New Mexico