



**Chevron U.S.A. Inc.**  
P.O. Box 1150, Midland, TX 79702

Permian Basin Production Business Unit

November 19, 1990

Laredo State 21 Com #1;  
Section 21, T-19-S, R-28-E,  
N.M.P.M.  
Eddy County, New Mexico  
316783

Pacific Enterprises Oil Company (USA)  
200 N. Loraine #400  
P. O. Box 3083  
Midland, Texas 79702-3083

**RECEIVED**

NOV 20 1990

Attention: Mr. M. Craig Clark

Gentlemen:

EXPL. & DEVEL.

Please refer to your letter of August 8, 1990 regarding the above captioned acreage. Chevron has carefully reviewed your request and is willing to farmout its interest covering a portion of said acreage, subject to final management approval, under the following terms and conditions:

Contract Area: S $\frac{1}{2}$  Section 21, T-19-S, R-28-E, N.M.P.M., Eddy County, New Mexico. This contract area shall be limited to those depths earned by you as hereinafter described for the farmout premises.

Farmout Premises and Interest Earned: N $\frac{1}{2}$  SE $\frac{1}{4}$ , SE $\frac{1}{4}$  SE $\frac{1}{4}$  Section 21, T-19-S, R-28-E, N.M.P.M., Eddy County, New Mexico. If the initial test well results as a producer of oil or gas in paying quantities, then you shall earn 100% of Chevron's working interest (subject to Chevron's retained overriding royalty interests and optional conversion thereof as hereinafter provided) encompassing the spacing proration unit assigned to such well by the New Mexico Oil Conservation Division located within the contract area, and an undivided 65% of Chevron's working interest outside of said proration unit within said contract area. Said lands earned shall be limited to those depths below 3,000 feet beneath the surface to the lesser of: 1) total depth drilled, but in no event below the base of the deepest formation penetrated, or 2) the base of the deepest producing formation, or 3) a depth of 50 feet below the deepest commercially productive perforation, or 4) the base of the Morrow formation, or 5) 11,300 feet beneath the surface.

Initial Test Well: On or before 90 days from the date of the farmout agreement, you shall commence the actual drilling of an initial test well at a location 660' FSL and 1980' FWL of said

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Section 21. Said well shall be drilled to a depth sufficient, in the opinion of Chevron, to adequately test the Morrow Formation or to a depth of 11,300 feet beneath the surface, whichever is the lesser depth.

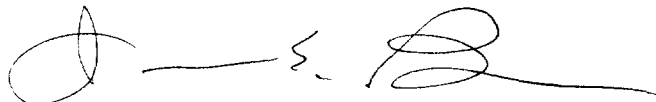
Interest Retained By Chevron In Initial Test Well Proration Unit:  
An exclusive 12.5% of 8/8ths overriding royalty interest increasing to 17.5% of 8/8ths upon payout of the initial test well, with the option upon payout of such well to convert said overriding royalty interest to an undivided 35% working interest. Said overriding royalty interests and working interest shall be subject to proportionate reduction.

Subsequent Test Wells: If you earn Chevron's interest as hereinabove provided, then in such event participation on any subsequent well proposed on the above described contract area shall be on the following basis: Chevron - 35% working interest, Pacific Enterprises Oil Co. (USA) - 65% working interest. These working interests shall be subject to proportionate reduction.

Operating Agreement: Any well in which Chevron becomes a working interest owner as provided herein shall be subject to the terms of an AAPL Model Form 610-1989 Operating Agreement containing Chevron's standard additions and deletions.

Upon your acceptance, the necessary instruments will be prepared subject to Chevron's standard terms, conditions and agreements. All terms and conditions will be subject to final management approval prior to the execution of instruments covering this trade. This conditional offer is not exclusive and Chevron reserves the right to withdraw it without further notice to you after 30 days from the date hereof, unless we receive a firm commitment from you within said 30-day period.

Yours very truly,

A handwritten signature in black ink, appearing to read 'James E. Baca', with a stylized flourish at the end.

James E. Baca  
Land Representative

JEB/raj  
WLD01116.06