

PACIFIC ENTERPRISES OIL COMPANY (USA)

November 7, 1989

SOUTHWEST REGION
200 N. Lorraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

Exxon Company, USA
615 West Missouri
Midland, Texas 79701

PEOC

10/168

Attention: Land Department

RE: Farmout Request
Section 16
T-17-South, R-31-East
Eddy County, New Mexico

Gentlemen:

Please be advised that our files indicate that Exxon Company USA currently owns a leasehold interest in and to those certain lands located within the red outline identified on Exhibit "A" attached hereto below 4500'. Further, Pacific Enterprises Oil Company (USA) is interested in drilling a well in the referenced area and hereby requests a Farmout of your leasehold interests covering said lands identified on said Exhibit "A" on the following general terms:

1. Within 180 days of the final execution of a formal contract, PEOC would commence or cause to be commenced the drilling of an initial test well at a legal location in the SE/4 of Section 16, T-17-South, R-31-East, Eddy County, New Mexico. Said initial test well would be drilled to a depth of approximately 12,100' or to a depth sufficient to test the Morrow Formation, whichever is the lesser depth.
2. Upon establishing production in commercial quantities, PEOC would earn an assignment of all your right, title and interest in and to that portion of your leasehold interests covering the lands identified on said Exhibit "A" that are included within the proration unit applicable to such initial test well. Said assignment would be limited in depth from the surface or the shallowest depth applicable to your interest down to 100 feet below the total depth drilled and would reserve an overriding royalty interest to you in an amount being equal to the difference between all existing leasehold burdens and 20%.

Farmout Request
Section 16
T-17-South, R-31-East
Eddy County, New Mexico
Page 2

3. At payout, on a well by well basis, Exxon Company USA would have the option to convert the aforesaid overriding royalty interest unto a 25% working interest.
4. Upon drilling and completing the initial test well either as a dry hole or a well capable of producing in commercial quantities, PEOC would have the right to drill additional wells on the lands subject to the Farmout Agreement not previously earned, by not allowing more than 180 days to lapse between the completion of one (1) well and the commencement of operations for drilling on the next succeeding well. The earning of an assignment for the drilling of any subsequent well shall be on the same basis as the initial test well.
5. The aforesaid overriding royalty interest and converted working interest would be subject to proportionate reduction.

We appreciate the opportunity to submit this proposal to you and hope that you consider same on a favorable basis. If said proposal described herein is acceptable, please so indicate by signing below in the space indicated and return one (1) fully executed duplicate original of this letter to the undersigned. Should you have any questions or problems concerning this matter, please do not hesitate in contacting me.

Very truly yours,

**PACIFIC ENTERPRISES
OIL COMPANY, (USA)**



M. Craig Clark
Landman

ACCEPTED AND AGREED TO
this _____ day of _____, 1989.

EXXON COMPANY USA

By: _____

