

MORRIS E. SCHERTZ  
P. O. Drawer 2588  
Roswell, New Mexico 88201

December 9, 1985

Ms. Corinne B. Grace  
Suite 215  
132, South Spalding Drive  
Beverly Hills, California 90212

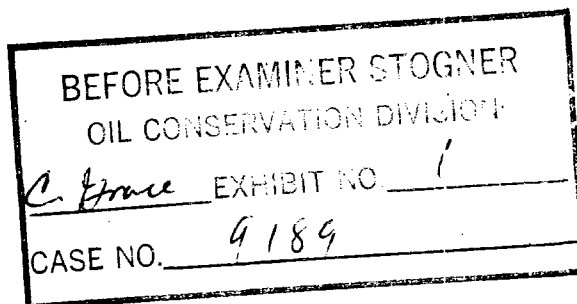
Re: Your working interest in certain fee oil and gas leases, from the surface to the base of the Delaware formation, covering the following described real property in Eddy County, New Mexico:

Township 22 South, Range 26 East, N.M.P.M.  
Section 24: SW1/4  
containing 160.0 acres, more or less.

Dear Ms. Grace:

The undersigned, subject to the conditions hereinafter expressed, hereby offers to purchase all of your right, title and interest in and to the above described leases and lands (from the surface to the base of the Delaware formation) by full and outright assignment. The terms of this offer are as follows:

1. Bonus Consideration: On the date of closing, being on or before December 9, 1985, I will deliver to you a cashiers check in the amount of \$14,001.67 (\$174.53 per gross mineral acre), upon your execution and delivery of an Assignment of Operating Agreement covering your interest hereinabove described.
2. Overriding Royalty Retained: In the assignment, a  $2\frac{1}{2}\%$  of  $\frac{8}{8}$ ths overriding royalty interest will be retained by you subject to proportionate reduction in the event that your interest constitutes less than 100% of the gross working interest in and under the above described lands.



3. Drilling Commitment: After approval of title by our attorneys and execution and delivery of the assignment, I will commit to drilling an initial test well in the NE/4 SW/4 of Section 24, T-22-S, R-26-E, N.M.P.M., to 4,500' or a depth sufficient to test the Delaware formation, whichever is the lesser depth, such well to be commenced with due diligence, but in no event later than two (2) months from the date the assignment is executed and delivered.
4. Option to Participate: After actual execution and delivery of the assignment contemplated hereinabove, you shall nonetheless have the option to participate in the drilling of any wells located on the above captioned land to the extent of 12.5% of the gross working interest assigned by you. A form of joint operating agreement more fully setting forth the terms of your option will be executed by you, along with the assignment on the date of closing.
5. Waiver of First Refusal Right: As a condition precedent, you will execute and deliver to me a written waiver of any right of first refusal which you may hold regarding properties of Michael P. Grace, II in Sections 24 and 25, above captioned township and range, such rights arising, at least in part, from letter agreement between you and Michael P. Grace, II, dated May 18, 1982. This waiver will be forwarded to me along with the original copy of this letter agreement.

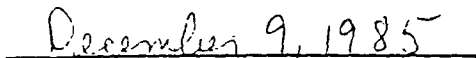
If the foregoing is acceptable to you, please execute the original of this letter where indicated below and return same to me along with the executed waiver.

Sincerely,

  
Morris E. Schertz

ACCEPTED:

  
CORINNE GRACE

  
DATE