



**Marathon
Oil Company**

Mid-Continent Region
Produced in United States

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December 13, 1999

Fasken Oil and Ranch, Ltd.
Attn: Sally M. Kvasnicka
303 West Wall, Suite 1800
Midland, TX 79701

Re: Indian Hills Unit
Letter Agreement
Sections 16 & 17, T-21-S, R-24-E
Eddy County, New Mexico, N.M.P.M.

Ladies and Gentlemen:

Marathon makes the following proposal to Fasken Oil and Ranch, Ltd. on behalf of Fasken Land and Minerals, Ltd., herein referred to as "Fasken", to develop Sections 16 and 17, T-21-S, R-24-E, Eddy County, New Mexico:

1. Marathon will drill and complete the Indian Hills Unit Well #23 at a location of 660' FSL and 1900' FWL of Section 16 to a depth of 9,900 feet or a depth sufficient to test the Morrow formation.
2. Fasken will drill and operate the Indian Hills Unit Well #16 at a location of 2000' FNL and 660' FWL of Section 17 to a depth of 9,900 feet, or a depth sufficient to test the Morrow formation.
3. Fasken will operate either well that is completed and deemed commercial in the Morrow formation.
4. Should Fasken elect not to operate the Morrow in the aforementioned wells, Marathon may take over said wells and produce the Morrow formation, with Fasken making the appropriate assignment of Fasken's leasehold interest to Marathon in Sections 16 & 17, ~~with Fasken retaining the spacing units around the Indian Hills Unit Wells #6 and #7.~~
5. Marathon has the election to take over operations and complete in formations above the Morrow formation, when the Morrow is deemed no longer commercial by Marathon and Fasken.

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