

PACIFIC ENTERPRISES OIL COMPANY (USA)

January 23, 1989

SOUTHWEST REGION

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

Mr. Joe B. Thomas
Exxon Company, USA
Post Office Box 1600
Midland, Texas 79702

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RE: Porcupine Prospect #6140
Farmout Request
Section 16, T-17-S, R-31-E
Eddy County, New Mexico

Dear Mr. Thomas:

We are in receipt of your letter of December 11, 1989 declining to farmout Exxon Company USA's leasehold interest in and to those lands located within the red outline identified on Exhibit "A" attached hereto. Pacific Enterprises Oil Company (USA) has acquired an interest in the W/2NE/4 and N/2NW/4 of Section 16 and is interested in drilling a well in the referenced area and again hereby requests a farmout of your leasehold interest covering said lands identified on said Exhibit "A" under the following general terms:

1. Within 180 days of the final execution of a formal contract, Pacific would commence or cause to be commenced the drilling of an initial test well at a legal location in the Southeast Quarter 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, Pacific would earn one hundred percent (100%) of Exxon's right, title and interest in and to that portion of the lands identified on 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 equal to the difference between all existing leasehold burdens and 20%.

3. At payout on a well by well basis, Exxon Company, USA would have the option to convert the aforesaid overriding royalty interest into 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 the 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. In the event that Exxon's leases cover less than the entire mineral estate in that portion of a tract which it purports to cover or Exxon owns less than the entire estate created by a lease, or all or any portion of a tract is pooled, spaced or unitized with other lands, then the overriding royalty interest and working interest retained by Exxon shall be proportionately reduced.

The proration unit for the initial well will be the East Half of said Section 16. Pacific Enterprises is planning to file an Application For Compulsory Pooling Hearing in the next couple of weeks. Should Exxon wish to participate with its leasehold interest, please advise and we will furnish you with an Authority For Expenditure for your approval.

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We appreciate the opportunity to submit this proposal to you and hope that you will consider same on a favorable basis. If the above farmout terms meet with your approval, please so indicate by executing both copies of this letter and returning one (1) fully executed copy to the undersigned. Should you have any questions or problems concerning this matter, please do not hesitate to contact me.

Very truly yours,

**PACIFIC ENTERPRISES
OIL COMPANY (USA)**



M. Craig Clark
Landman

MCC/dsr

ACCEPTED AND AGREED TO
this ____ day of _____, 1990

EXXON COMPANY, USA

By: _____
Name: _____
Title: _____

