

ENRON

Oil & Gas Company

P. O. Box 2267 Midland, Texas 79702 (915) 686-3600

June 5, 1989

Dinero
P. O. Box 10505
Midland, Texas 79705

Attention: Mr. Jim Dewey

RE: Willow Lake Prospect
Letter of Intent Farmout

WILLIAM STOGNER
Oil Generation Division
ENRON Exhibit No. <u>9</u>
Case No. <u>9686</u>

Gentlemen

Pursuant to our numerous conversations, this is to confirm our verbal agreement whereby Dinero agrees to grant a farmout to Enron Oil & Gas Company, hereinafter referred to as "EOG", covering the interest controlled by Dinero in the South-Half (S/2) of Section 15, T-24-S, R-28-E, N.M.P.M., Eddy County, New Mexico, said interests being more fully described on Exhibit "A" attached hereto, on the following terms and conditions:

- 1) On or before ninety (90) days from the date of a mutually acceptable fully executed formal Farmout Agreement between the parties hereto and EOG's approval of title, EOG will commence, or cause to be commenced, operations for the drilling of a 12,000' Atoka test well, hereinafter referred to as "initial test well", to be located 660' FSL and 1980' FEL of said Section 15.
- 2) Should EOG complete the initial test well, or substitute well, as a well capable of producing oil and/or gas in paying quantities, then EOG will have earned and Dinero will execute and deliver to EOG an Assignment covering 100% of Dinero's right, title and interest in all of the S/2 of said Section 15, as described in Exhibit "A" attached hereto.
- 3) Said Assignment shall reserve unto Dinero an overriding royalty interest equal to the difference between all lease royalty and overriding royalty burdens and 25% (the intent being to deliver EOG a 75% net revenue interest), with option at payout of the initial test well to convert said overriding royalty interest to a 33-1/3% working interest, all proportionately reduced to the interest conveyed herein.
- 4) The interest reserved by Dinero in the Assignment provided in 2 and 3 above shall be subject to and bear the interest reserved in the farmout agreement described in Exhibit "A" attached hereto.

Dinero
June 5, 1989

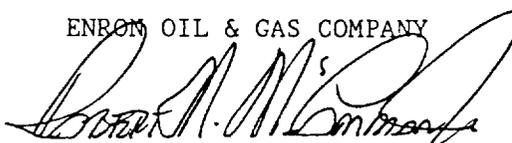
- 5) Should Dinero convert its overriding royalty interest to a working interest as provided in 3 above, then the parties hereto will enter into an Operating Agreement (1982 AAPL Model Form 610) covering all of the South-Half of said Section 15, designating EOG as operator and containing the following provisions:
- (a) 300% non-consent provisions on costs of drilling, completing, reworking, recompleting, additional drilling and costs of newly acquired equipment in the well (to and including the wellhead connections);
 - (b) A gas balancing provision providing for makeup by an under-produced party out of 50% of the over-produced party's interest;
 - (c) Copas 1984 Accounting Procedure used with Overhead Fixed Rate Basis paragraph 1A(1) of Section III providing monthly rates not to exceed \$5,992.00 per drilling well and \$599 per producing well;
 - (d) Major Construction Overhead-Section III-2 of Copas 1984 Accounting Procedure shall provide only for negotiation of rates prior to construction.

Should this letter confirm your understanding of our trade, then please acknowledged your approval of same by signing in the space provided below and returning this letter to EOG at the above address at your earliest convenience.

Your cooperation in this mater is appreciated. Should you have any questions concerning the above, then please contact the undersigned at telephone number 686-3730.

Very truly yours,

ENRON OIL & GAS COMPANY



Robert M. McCommon, Jr.
Project Landman

RMM/cl

AGREED TO AND ACCEPTED THIS _____
DAY OF JUNE, 1989.

DINERO

By: _____

Title: _____

EXHIBIT "A"

Attached to and made a part of that certain Letter Agreement dated June 5, 1989 between Enron Oil & Gas Company and Dinero.

1. Oil & Gas Lease dated December 19, 1988
Lessor: Bonnie Hazel Roberts
Lessee: Dinero Energy
Recording: Volume _____, Page _____
Description of Lands covered: E/2 SE/4 SW/4 SW/4 Section 15,
T-24-S, R-28-E, NMPM, Eddy Co., New Mexico

2. Oil & Gas Lease dated
Lessor: Estate of Jack Miller, Cheryl M. Owen, Personal Representative
and Wayne C. Annala, Attorney of record for the Personal
Representative and said Estate.
Lessee: Dinero Energy
Recording: Volume _____, Page _____
Description of Lands covered: Undivided 1/2 interest W/2 SE/4 Section 15,
T-24-S, R-28-E, NMPM, Eddy Co., New Mexico

3. Oil & Gas Lease dated
Lessor: Estate of Elsie Warren
Lessee: Dinero Energy
Recording: Volume _____, Page _____
Description of Lands covered: W/2 SE/4 NE/4 SW/4 Section 15, T-24-S, R-28-E,
NMPM, Eddy County, New Mexico

4. Farmout Agreement dated
Farmor: Meridian Oil Inc.
Farmee: Dinero
Description of Lands covered: NW/4 NW/4 SW/4, E/2 NW/4 SW/4, W/2 NE/4 SW/4,
E/2 SE/4 NE/4 SW/4, N/2 SW/4 SW/4, SW/4 SW/4 SW/4,
W/2 SE/4 SW/4 SW/4, SE/4 SW/4 Section 15, R-24-S,
R-28-E, NMPM, Eddy County, New Mexico.