

PXP

Plains Exploration & Production Company

September 14, 2006

Vaquero Energy
5060 California Avenue, Suite 640
Bakersfield, California 93309
Attn: Ken Hunter

Re: Letter of Intent dated January 27, 2006 between Plains Exploration & Production Company ("PXP") and Vaquero Energy ("Vaquero")

Dear Mr. Hunter:

This is to inform you that since your last discussion with PXP, that several significant obstacles to going forward with the project set forth in the above referenced letter has been identified by our legal department. First, the California Gas Producers Access Agreement entered into on 12/1/95 between Torch Energy Marketing, Inc as "Producer" (PXP is now the "Producer") and Southern California Gas Company ("SoCal") as Utility ("Access Agreement") covers gas only from the "Contract Area" identified in said Agreement as the Lompoc Field and the Point Pedernales Field. Accordingly, the Contract Area of the Access Agreement would need to be amended to include your gas from the Careaga Field.

Unfortunately, we understand from discussions with our consultants that SoCal will most likely not be amenable to amending the Access Agreement, but will require a new access agreement with new terms and conditions which will create significant new costs and operating hardships for both PXP and Vaquero. — *SO CAL CONSENTED WITHOUT NEW CONDITIONS AT OUR URGING*

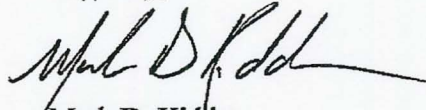
Obviously to go forward with discussions with SoCal, PXP would first require Vaquero to indemnify it (and provide financial assurances acceptable to PXP to support such indemnification) from any and all new costs and operational hardships that may be imposed on PXP by the new contract, and to reimburse PXP for all of its costs and time in negotiating such a transaction with SoCal. While PXP is unable to quantify such costs at this time, we do believe that such costs may be substantial.

The second obstacle identified by our legal department is the potential inability of PXP to shift all cost, risk, and liability with regard to the pipelines to Vaquero, including but not limited to operational, safety, spill clean-up and abandonment issues. Accordingly, PXP would require that Vaquero provide it with appropriate performance bonds and insurance coverage to effectively insure that PXP would have no risk involved in going forward with a transfer of the pipeline to Vaquero.

In light of the foregoing issues, if Vaquero is still interested in pursuing its project, please advise. We would anticipate the need for some formal agreement to document the parties understanding concerning the above discussed matters before any discussions with SoCal take place.

If you desire to discuss further, please call me at 713-579-6214.

Sincerely,



Mark D. Kidder
VP-Operations

KEVIN

WE COMMANDED SOCAL GAS IN SEPT 06 AND FURNISHED THEM WITH INFO THEY REQUESTED. IT TOOK SOCAL ABOUT SIX MONTHS TO FINALLY RESPOND THEY HAD NO PROBLEM WITH OUR GAS ENTERING PXP'S PLANT. SOCAL INDICATED TO ME THAT PXP WAS IN NO HURRY AND WAS GENERALLY UNRESPONSIVE TO SOCAL.

KAD