

Chi Energy, Inc.

P.O. BOX 1799
MIDLAND, TEXAS 79702

March 30, 2012

Via Certified Return Receipt #7005 0390 0000 6039 2231

International Oil & Gas Corp
Three Greenspoint Plaza
233 Benmar Drive, 11th Floor
Houston, Texas 77060

Re: Peacekeeper WIU
Peacekeeper "25" State Com No. 2H
100' FSL & 660' FWL of Section 24-T-19S-R-29E (SHL)
330' FSL & 660' FWL of Section 25-T-19S-R-29E (BHL)
Eddy County, New Mexico

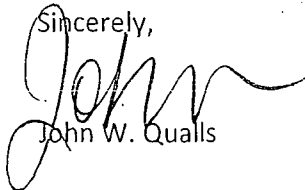
Dear Ricky:

Chi Operating, Inc. ("Chi") as Operator hereby proposes to drill the captioned well at the referenced surface location (SHL) to the referenced bottom hole location (BHL). The proposed well will be drilled to a true vertical depth of approximately 7,750' and shall be drilled to a true measured depth of approximately 13,000' in the Second Bone Spring Sand. The W/2W/2 of Section 25 will be the pooled oil proration unit.

Chi proposes to form a 320 acre, (W/2 of Section 25), Working Interest Unit (WIU) covering the Bone Spring formation. Should Cimarex desire not to join, Chi would be interested in acquiring a term assignment covering the Bone Spring formation with acceptable terms.

Enclosed is the proposed Operating Agreement dated April 1, 2012 along with an AFE for your execution, which covers rights from the top of the Bone Spring formation to the base of the Bone Spring formation and excludes currently existing wellbores, associated production and operation of same. Chi will operate the proposed WIU. A Drilling Title Opinion is being prepared at this time, and will be forthcoming. It would be appreciated if Cimarex could call and discuss this area as there are some issues concerning Cimarex's interest in the NE/4SW/4.

Sincerely,



John W. Qualls

JWQ/bkr

Enclosures

Oil Conservation Division
Case No. 14997
Exhibit No. 1

AFE: Chi Operating, Inc. - Drill Well Date: F 8/29/2012
 Prospect/Well: Peacekeeper 25 State No. 3H
 Legals: SL: 200 FSL & 400 FWL, Sec 25, T19S R29E
 BHL: 330 FNL & 330 FWL, Sec 25, T19S R29 E

Codes:	Description:	Daywork
101	Survey & Permit	10,000.00
102	Damages	
103	Road & Location	125,000.00
104	Rig Move	80,000.00
105	Drig-Footage Ft x \$ Ft.: Rate:	
106	Drig-Daywork Day x \$ Days: 33 Rate: 19000	627,000.00
106	Directional Services	230,000.00
113	Bits & Reamers	70,000.00
107	Cm/Hardware-Surface Ft.: 1525 Size: 9 5/8	25,000.00
108	Cm/Hardware-Intermediate Ft.: 7750 Size: 7	75,000.00
127	Cm/Hardware-Pres. String. Ft.: Size:	
124	Casing Crews	8,500.00
109	Coring/core analysis	
110	DST	
111	Drig. Fluid	75,000.00
112	Water	40,000.00
114	Geological & Expenses. Days: Rate:	
115	Engineering & Expenses Days: Rate:	
115	Supervision Days: 36 Rate: 1200	43,200.00
116	Mud Logging Days: 17 Rate: 1200	20,400.00
117	Open Hole Logging	25,000.00
118	Equip. Rental	238,000.00
119	Trucking	125,000.00
120	Labor	165,000.00
121	Legal	8,000.00
122	Overhead Days: Rate:	
123	Insurance & Bonds	2,500.00
125	P & A	30,000.00
128	Fuel Days: Rate:	128,000.00
126	Misc./Contingencies	150,000.00
	Sub-Intangibles Drig.	2,294,600.00
201	Casing - Surface Ft.: 300 Size: 13 3/8 \$/FT. 62.00	18,600.00
202	Casing - Intermediate Ft.: 3000 Size: 9 5/8 \$/FT. 31.20	93,600.00
204	Casing - Pres. String Ft.: 7950 Size: 7 \$/FT. 26.50	210,675.00
203	Wellhead/Surface/Int.	8,500.00
216	Misc./Contingencies	
	Sub-Tangible Drig.	331,375.00
	Dry Hole	2,625,975.00
301	ROW & Permits	
308	Cemen/Hardware-Production Ft.: Size:	
324	Casing Crews	8,500.00
302	Anchor	1,200.00
303	Location	3,000.00
305	Completion Unit Days: 14 Rate: 3250	45,500.00
306	Logging/Perforating	25,000.00
306		
307	Slickline/Wireline	12,500.00
309	Coil Tubing	125,000.00
310	Stimulation	1,125,000.00
311	Damages	10,000.00
312	Water	150,000.00
318	Equipment Rental	95,000.00
315	Engineering/Suprvision & Expenses Days: Rate: 1200	0.00
319	Trucking	85,000.00
320	Labor	100,000.00
321	Legal	8,000.00
322	Overhead Days: Rate:	
326	Misc./Contingencies 7%	58,394.00
	Sub-Intangible Completion.	1,852,094.00
402	Casing-Production Ft. 4500 Size 4.5 \$/FT. 14.50	65,250.00
403	Casing/Tbg. Head	5,500.00
403	Wellhead	10,500.00
404	Tubing Ft. 7000 Size 2.88 \$/FT. 7.25	50,750.00
405	Rods Ft. 7000 Size \$/Ft. 7.2	50,400.00
405	Pmp	3,000.00
406	Pumpg Unit/Motor	95,000.00
407	Heater	
408	Separator	20,000.00
409	Tanks - Production	52,000.00
410	Valve & Fittings	20,000.00
411	Flowlines	20,000.00
412	Frac Point System	245,000.00
413	Dehy Unit	
414	Meter	4,200.00
415	Meter Run	3,500.00
417	Slack	
416	Misc./Contingencies	100,000.00
	Sub-Tangible Completion.	745,100.00
Total AFE		5,223,169.00

_____ Agreed to & accepted this _____ Company
 _____ day of _____, 2012 _____ Signature
 _____ Non-Consent this _____ Print
 _____ day of _____, 2012 _____ Title

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

INTERNATIONAL OIL & GAS CORP
16825 NORTHCHASE DR.,
SUITE 1400
HOUSTON, TX 77060-6033

Peacekeeper "25" St. Com No. 2H

2. Article Number

(Transfer from service label)

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X☐ Agent☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

☐ Certified Mail☐ Express Mail☐ Registered☐ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

U.S. Postal Service

CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.usps.com**OFFICIAL USE**

Postage \$ 2.70

Certified Fee 2.95

Return Receipt Fee (Endorsement Required) 2.35

Restricted Delivery Fee (Endorsement Required)

Total Postage & Fees \$ 8.00

Sent To

INTERNATIONAL OIL & GAS CORP

Street, Apt. No.,
or PO Box No.16825 NORTHCHASE DR.,
SUITE 1400

City, State, ZIP+4

HOUSTON, TX 77060-6033

PS Form 3800, August 2006

See Reverse for Instructions

CERTIFIED MAIL



7009 0820 0001 1992 6310



MIDLAND TX 797
THU 31 MAY 2012 PM



1000

77050

U.S. POSTAGE
2010
MIDLAND-TX
79701
MAY 31 '12
PMOUNT

\$2.35
00055732-07

FIRST CLASS

CHI ENERGY, INC.
P.O. BOX 1799
MIDLAND, TX 79702

WMP

1799

**RETURN RECEIPT
REQUESTED**

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none">Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.Print your name and address on the reverse so that we can return the card to you.Attach this card to the back of the mailpiece, or on the front if space permits.		<p>A. Signature X</p> <p><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p>	
<p>1. Article Addressed to:</p> <p>INTERNATIONAL OIL & GAS CORP 16825 NORTHCHASE DR., SUITE 1400 HOUSTON, TX 77060-6033</p> <p><i>WMP</i></p>		<p>B. Received by (Printed Name)</p> <p>C. Date of Delivery</p>	
<p>2. Article Number (Transfer from service label)</p> <p>7009 0820 0001 1992 6310</p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p>3. Service Type</p> <p><input type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	

RTW
7-9