

RIO PECOS CORPORATION

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August 20, 1985

Anadarko Production Company
P. O. Box 2497
Midland, Texas 79701

Attention: Mr. Paul Hanna

Re: Cedar Lake Prospect
Township 17 South, Range 30 East, NMPM
Section 26: W/2
Eddy County, New Mexico

Gentlemen:

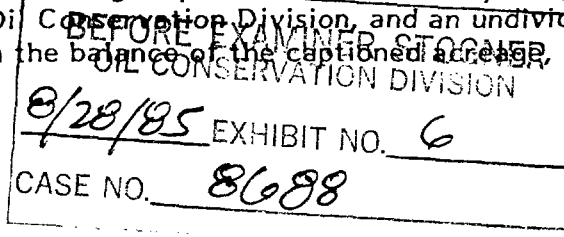
This letter is written in response to my telephone conversation with Bill Sullivan, whereby he recommended that in the event Anadarko elects not to participate in the drilling of the captioned prospect, as an alternative, what type of farmout would Rio Pecos Corporation accept in support of our well.

Based upon the climate of the gas market, the nature of the area geologically and the terms of other farmouts we have negotiated, Rio Pecos Corporation would like to offer the Anadarko management the following two farmout options in support of our captioned test:

- 1) Rio Pecos Corporation will pay 10.156250% (Anadarko's proportionate share of the working interest as to the proration unit) of all costs incurred to drill said well to the point of running and setting production casing and making a completion attempt, including the cost to plug and abandon said well, if necessary, and 7.61719% of all costs incurred thereafter — your typical 1/3 for 1/4 to casing point farmout trade, or,
- 2) On or before December 31, 1985, Rio Pecos Corporation, or its assigns, shall commence the drilling of the Initial Test Well at a location of its choice in the captioned acreage.

If mechanical or other difficulties render further drilling of the Initial Test Well impractical, Rio Pecos Corporation, or its assigns, shall have the option for 30 days after the Initial Test Well is abandoned to commence a Substitute Test Well at a location of Rio Pecos Corporation's choice.

With regard to acreage farmed out, if the Initial or Substitute Test Well is completed as a producer, Rio Pecos Corporation, or its assigns, shall earn all of Anadarko's present interest in the largest proration unit initially assigned to the well by the New Mexico Oil Conservation Division, and an undivided 70% of Anadarko's present interest in the balance of the captioned acreage, if any.



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Anadarko, in proportion to its present interest will reserve from the proration unit an overriding royalty interest equal to the difference between 25% and the average existing lease burdens on the proration unit. After payout of a well completed as a producer, Anadarko shall have the option to convert its reserved overriding royalty into a working interest equal to 30% of its present interest as to the proration unit. The rights earned would be from the depth of 4,000 feet below the surface to the stratigraphic equivalent of 100 feet below the total depth drilled in the Earning Well.

Thank you for your consideration.

Very truly yours,

RIO PECOS CORPORATION


Roger T. Elliott
Landman

RTE/sh

Documented telephone conversations with Anadarko Production Company
re: Cedar Lake Prospect; Section 26: W/2, T-17-S, R-30-E:

2/13/85 - Mike Goode

2/15/85 - " "

2/26/85 - Paul Hanna

3/11/85 - " "

3/26/85 - Mike Goode

4/02/85 - Paul Hanna

6/10/85 - " "

7/12/85 - Mike Goode

7/18/85 - Paul Hanna

7/30/85 - Bill Sullivan

8/13/85 - " "

Anadarko speaks on behalf of Frances J. Weller and Weller Energy, Inc.