

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

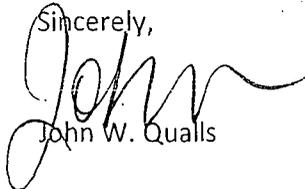
Dear Ricky:

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

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/Perforatting					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/Molor					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)

PS Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

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

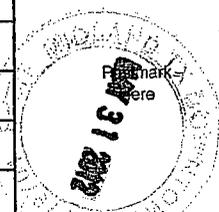
U.S. Postal Service
CERTIFIED MAIL™ RECEIPT

(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



Peacekeeper™ 25" St. Com No. 3H
AFE & J0A

Sent To

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

Street, Apt. No.,
or PO Box No.

City, State, ZIP+4

PS Form 3800, August 2006

See Reverse for Instructions

7009 0820 0001 1992 6310

PLACE STICKER ON TOP OF ENVELOPE TO THE RIGHT
OF THE RETURN ADDRESS TO AVOID POSTAL DELAY

CERTIFIED MAIL™



7009 0820 0001 1992 6310

7009 0820 0001 1992 6310

CERTIFIED MAIL

7009 0820 0001 1992 6310

UNITED STATES POSTAGE
EITNEY BOWES
\$005.650
02-1P
0004358976 MAY 31 2012
MAILED FROM ZIP CODE 79701

MIDLAND TX 797
THU 31 MAY 2012 PM



U.S. POSTAGE
2010
MIDLAND TX
79701
MAY 31 '12
PMOUNT
\$2.35
00055732-07

1000 77050

FIRST CLASS

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

WMP

61791

**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 <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>B. Received by (Printed Name)</p> <p>C. Date of Delivery</p>	
<p>2. Article Number (Transfer from service label) 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>	

WMP

*RTW
7-9*