



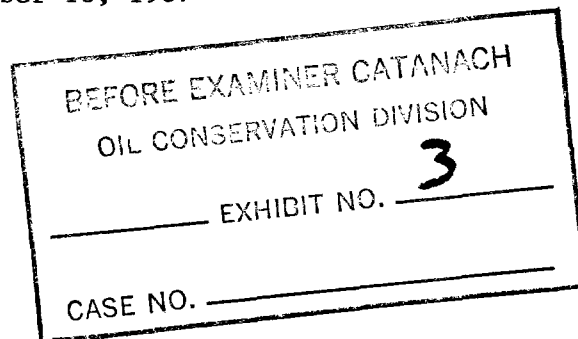
PENNZOIL PLACE • P. O. BOX 2967 • HOUSTON, TEXAS 77252-2967 • (713) 546-4000

October 16, 1987

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Rio Pecos Corporation
110 West Louisiana
Suite 460
Midland, Texas 79701

Attention: Mr. Scott Wilson



Re: #1 M. H. Medlin
S/2 NW/4 of Section 14,
T16S - R37E
Lea County, New Mexico

Gentlemen:

Pennzoil Company hereby proposes to drill a 12,200' Strawn-Atoka test at a legal location 1980' FNL and 660' FWL of Section 14, T16S-R37E, by January 1, 1988. A copy of our AFE is enclosed for your review.

We request that Rio Pecos Corporation either participate in our proposed well or farmout its interest in the NW/4 Section 14-16S-37E to Pennzoil, on the following terms:

1. Upon completion of the Initial Test Well as a producer, Pennzoil will earn an assignment of 100% of Rio Pecos' interest in the proration unit assigned to the well limited to 100' below TD drilled. Rio Pecos will reserve an overriding royalty interest equal to the difference in existing lease burdens and 25%, delivering to Pennzoil a 75% NRI, with Rio Pecos having the option to convert said overriding royalty interest at payout to a 25% W.I. proportionately reduced.
2. Pennzoil will have the option of commencing a one hundred eighty (180) day continuous drilling program to earn the balance of the farmout acreage under the same terms as the ITW.

Should Rio Pecos elect to participate, please return an executed copy of the enclosed AFE, and an A.A.P.L. Form 610-1982 Model Form Operating Agreement will be forwarded to you for your review and execution.

Rio Pecos Corporation
October 16, 1987
Page 2

Please be advised that due to Pennzoil's lease expirations in January of 1988, we plan to make application to compulsory pool the S/2 NW/4 of Section 14-16S-37E on the next available Commission docket.

Your prompt consideration of our proposal will be appreciated. Should you have any questions, please feel free to contact me at 713/546-6195.

Yours very truly,

PENNZOIL COMPANY

Greg Davis
Greg Davis
Land Specialist

GD:jt

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. ☐ Restricted Delivery
↑(Extra charge)↑

3. Article Addressed to:
**RIO PECOS CORPORATION
110 WEST LOUISIANA FR
SUITE 460
MIDLAND, TEXAS 79701
ATTN: SCOTT WILSON**

4. Article Number
P-757-967-721

Type of Service:
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail

Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature - Addressee
X

6. Signature - Agent
X *Reg. T. Ellett*

7. Date of Delivery
10-19-87

8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Mar. 1987 U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RECEIPT

Co. Dept.		Play No.		AFE No.		AFE Title or Location Name (25)	
2 5 1		6 1 4 0		7 4 3 8 9 3 7		M. H. M E D L I N # 1 D, C. & E.	
COMPANY				DIVISION		DISTRICT	
Pennzoil Company				Western		36	
WELL NAME AND NO.				FIELD OR AREA		UNDEVELOPED LEASE NO.	
M.H. Medlin No. 1				NE Lovington			
OPERATOR				COUNTY OR PARISH		STATE	
Pennzoil Company				Lea		NM	
PROJECT DESCRIPTION				LEASE NAME AND NO.			
Drill, complete and equip. a							
12,200' Strawn oil well located 1980' FNL &							
660' FWL of section 14, T16S, R37E				PROPOSED FORMATION			
				Strawn			
<input checked="" type="checkbox"/> Single		<input type="checkbox"/> Triple		<input checked="" type="checkbox"/> Oil		<input type="checkbox"/> Gas	
<input type="checkbox"/> Dual				<input type="checkbox"/> Expl.		<input checked="" type="checkbox"/> Dev.	
<input checked="" type="checkbox"/> Land		<input type="checkbox"/> Bay		<input checked="" type="checkbox"/> New		<input type="checkbox"/> Workover	
<input type="checkbox"/> Marsh		<input type="checkbox"/> Gulf				Deepen	
						<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
DATE TO START		DATE TO COMPLETE		DAYS TO DRILL		PROPOSED DEPTH	
				36		12,200'	
Gross		Net		Budget Code		Ls./Assoc. Prop. No.	
				4 1 0 8			
Assoc. AFE No.		Joint Venture		Operator		State Code	
		<input type="checkbox"/> No <input type="checkbox"/> Yes		<input type="checkbox"/> 2-Co. <input type="checkbox"/> 3-Outsd.			
County/ Ph. Code		Civil Dist.		Conveyed		Report to Code	
				<input type="checkbox"/> Yes <input type="checkbox"/> No			
Costing Location Mktg		Environmental Cost		% Air		% Water	
						% Land - Other	
						% Safety and Health	
JUSTIFICATION To test a Strawn lime algal mound in the Lovington NE Field area.							
INTANGIBLES							
				SUB	DRY HOLE	COMPLETION	TOTAL
CONTRACT DRILLING 12,200 ft. @ \$				13.00 /ft.	489	158,600	158,600
CONTRACT DAY WORK	DRILLING			days @ \$	/day	490	
	CORING AND DRILL STEM TEST			4 days @ \$	4,000 /day	490	16,000
	LOGGING, SFT. AND PERFORATING			2 days @ \$	4,000 /day	490	8,000
	OTHER			10 days @ \$	1,300 /day	490	13,000
	TOTAL CONTRACT DAY WORK				490		
COMPANY PAYROLL \$195/day				501	7,020	1,950	8,970
EMPLOYEE BENEFITS \$105/day				505	3,780	1,050	4,830
TRANSPORTATION AND HAULING				545	10,000	7,500	17,500
ACCESS CANAL CONSTRUCTION				476			
LOCATION, ROADS, PITS OR KEYWAY				472	7,500	6,000	13,500
BITS, COREHEADS, ETC.				492			
MUD MATERIALS				475	18,000	1,500	19,500
CEMENT AND CEMENTING SERVICES				473	21,000	8,000	29,000
CENTRALIZERS, SHOES, SCRATCHERS AND NON-SALVABLE PACKERS				491	1,000	1,000	2,000
MUD LOGGING 21 days @ \$350/day				474	7,350		7,350
FORMATION TESTING one DST				482	4,500		4,500
LOGGING AND SIDE WALL CORING				478	26,000	3,000	29,000
PERFORATING				479		7,500	7,500
TOOL RENTAL INCLUDING SMALL DIAMETER DRILL PIPE				488	5,000	6,000	11,000
TESTING TUBULAR GOODS				484	6,000	15,000	21,000
INTERNAL COATING				485			
STIMULATION TREATMENT				480		7,500	7,500
OTHER SPECIAL WELL SERVICES includes 60' core				494	16,000		16,000
MISCELLANEOUS COSTS AND CONTINGENCIES 10%				599	31,550	7,900	39,450
TOTAL INTANGIBLES					347,300	86,900	434,200
TANGIBLES							
CASING	ft.	in.	lb.	Gr.	@ \$	440	
	425	13-3/8	48.0	H-40	21.39	440	9,100
	4,400	8-5/8	28.0	S-80	16.60	440	73,000
	12,200	5-1/2	17	N-80	9.48	440	115,700
TUBING						443	
	11,800	2-7/8	6.5	N-80	4.49	443	53,000
						443	
CASING HEADS				444	4,000	9,500	13,500
CHRISTMAS TREE				445		8,000	8,000
RETRIEVABLE PACKERS				448		6,000	6,000
OTHER WELL EQUIPMENT				469			
TOTAL TANGIBLES					86,100	192,200	278,300
TOTAL WELL COST				100.00000	%		
PRODUCTION EQUIPMENT (Detail Attached)				100.00000	%	104,800	104,800
OTHER COSTS - NET (Detail Attached)				100.00000	%		
TOTAL COST				100.00000	%	433,400	383,900
CO. OWNERSHIP				6 1 6 7 0 4 %	COMPANY COST	6 1 6 7 0 4 %	267,280
APPROVAL				DATE	APPROVAL	DATE	AUTHORIZATION
10-16-87							504,032
JOINT INTEREST APPROVAL							
COMPANY NAME:					%		
APPROVAL					DATE		

13 10	Co.	Dept.	Play No.	AFE No.	AFE Title or Location Name (25)												
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Gross		Net		Budget Code		Ls./Assoc. Prop. No.		Assoc. AFE No.		Joint Venture		Operator		State Code			
				4108						<input type="checkbox"/> No <input type="checkbox"/> Yes		<input type="checkbox"/> 2-Co. <input type="checkbox"/> 3-Outsd.					
County/ Ph. Code		Civil Dist.		Conveyed		Report to Code		Costing Location Mktg		Environmental Cost		% Safety and Health					
				<input type="checkbox"/> Yes <input type="checkbox"/> No						% Air		% Water		% Land - Other			
JUSTIFICATION To test a Strawn lime algal mound in the Lovington NE Field area.																	

[illegible]

ATR CD		SUMMARY OF ESTIMATED COST			
1	PROPERTY ADDITIONS				
6	REMOVAL COST				
5	SALVAGE				
		TOTAL COST	100.00000	%	104,800
CO. OWNERSHIP	616704				
		COMPANY COST	61666667	%	
APPROVAL	DATE	APPROVAL	DATE	AUTHORIZATION	DATE
JOINT INTEREST APPROVAL					
COMPANY NAME:					%
APPROVAL		DATE			