



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

October 16, 1987

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Terra Resources, Inc.  
10 Desta Drive, Suite 500-West  
Midland, Texas 79705

Attention: Mr. Kevin T. Pfister

BEFORE EXAMINER CATANACH OIL CONSERVATION DIVISION ____ EXHIBIT NO. <u>5</u> CASE NO. _____
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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 Terra Resources Inc. either participate in our proposed well or farmout its interest in the NW/4 of Section 14-T16S-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 Terra's interest in the proration unit assigned to the well limited to 100' below TD drilled. Terra will reserve an overriding royalty interest equal to the difference in existing lease burdens and 25%, delivering to Pennzoil a 75% NRI, with Terra 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 Terra 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.

Terra Resources, Inc.  
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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. ↑(Extra charge)↑

2. ☐ Restricted Delivery ↑(Extra charge)↑

3. Article Addressed to:

TERRA RESOURCES, INC.  
10 DESTA DRIVE  
SUITE 500-WEST  
MIDLAND, TX. 79705  
ATTN: KEVIN T. PFISTER

4. Article Number  
P757-967-732

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 *Karmen Kooze*

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. 1987-178-289 DOMESTIC RETURN RECEIPT

JUSTIFICATION To test a Strawn lime algal mound in the Lovington NE Field area.

TANGIBLES

TOTAL WELL COST	100000000	%			
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CO. OWNERSHIP	6	67	0	%	COMPANY COST	6	67	0	%	267	380	236	752	594	880
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JOINT INTEREST APPROVAL

COMPANY NAME:		%	
APPROVAL		DATE	

Co. Dept.		Play No.		AFE No.		AFE Title or Location Name (25)											
251		6140		7438937		M. H. MEDLIN #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"/> Expl.		<input checked="" type="checkbox"/> Dev.		<input checked="" type="checkbox"/> New		<input type="checkbox"/> Workover		Deepen	
<input type="checkbox"/> Dual																<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<input checked="" type="checkbox"/> Land		<input type="checkbox"/> Bay		DATE TO START		DATE TO COMPLETE		DAYS TO DRILL		PROPOSED DEPTH							
<input type="checkbox"/> Marsh		<input type="checkbox"/> Gulf						36		12,200'							
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.																	

### DETAIL OF PRODUCTION EQUIPMENT AND OTHER COSTS

[illegible]

### SUMMARY OF ESTIMATED COST

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		616666 7%
APPROVAL	DATE	APPROVAL	DATE	AUTHORIZATION	DATE
JOINT INTEREST APPROVAL					
COMPANY NAME:					%
APPROVAL				DATE	