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April 25, 1990

CERTIFIED MAIL

Rowan Petroleum, Inc.
1900 Post Oak Tower
5051 Westheimer Road
Houston, Texas 77056

Attention: Mr. R. G. Croyle

RE: Proposed Delaware Test
Milky Way State #1
MILKY WAY PROSPECT
Lea County, New Mexico

BEFORE EXAMINER STOGNER

Oil Conservation Division

Mitchell Exhibit No. 2

Case No. 9966



Gentlemen:

Mitchell Energy Corporation proposes the formation of a 160.00 acre working interest unit made up of the SE/4 of Section 17, T-18-S, R-35-E, Lea County, New Mexico, and the drilling of a well to test and evaluate the Delaware formation at a depth of approximately 6,700'. The well would be located approximately 1,980' FSL and 330' FEL of said Section 17. At this time, we anticipate the proration unit for the test well will consist of the NE/4 SE/4 of said Section 17.

The test well and subsequent operations within the proposed working interest unit will be governed by the terms of an AAPL 610-1982 Model Form Operating Agreement with COPAS 1984 Onshore Accounting Procedure designating Mitchell as operator. A copy of said operating agreement will be forwarded to you in the next few days. At this time, we anticipate spudding the well on or before July 31, 1990.

According to our information, it appears the potential participants and their respective interests within the proposed working interest unit are as follows:

*Same Int
in each
160/40*

INTEREST OWNERS

Mitchell Energy Corporation
Texaco Inc.
Rowan Petroleum, Inc.

UNIT INTEREST

0.5000000
0.2775000
0.2225000

not amended
have amended

We would appreciate your confirmation of the above interest at your earliest possible convenience.

α

Enclosed herewith are duplicate copies of the AFE Cost Estimates for Dry Hole Costs and Completed Well Costs. If you elect to participate in drilling the proposed well, please execute and return one (1) copy of each of the AFE Cost Estimates to the undersigned.

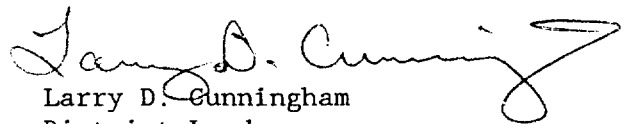
Should you elect not to participate in said well, Mitchell proposes Rowan either sell all of its right, title and interest in and to State of New Mexico Oil and Gas Lease V-1565 insofar as said lease covers the SE/4 of Section 17, T-18-S, R-35-E, Lea County, New Mexico, for \$100.00 per net acre or farmout its interest in said lands under the following general terms:

1. Mitchell would propose to commence the drilling of a Delaware test well at a location approximately 1,980' FSL & 330' FEL of Section 17, T-18-S, R-35-E, Lea County, New Mexico, on or before July 31, 1990, and agrees to drill said well to a depth of 6,700' or a depth sufficient to adequately test the Delaware Formation, whichever is the lesser depth.
2. Upon completion of the above well as a producer of oil and/or gas in paying quantities, Mitchell will earn 100% of Rowan's interest included in the proration unit for the well, subject to Rowan's reservation of an overriding royalty interest equal to the difference by which 25% exceeds existing lease burdens, convertible at payout upon your election to a proportionately reduced 25% working interest. In addition to the above, Mitchell would earn 50% of Rowan's interest in that portion of the farmout acreage not included in the proration unit for the earning well. Rights earned would be limited to 100' below total depth drilled.

The lease which is the subject of this proposal will expire unless actual drilling operations are commenced on or before August 1, 1990. Accordingly, we ask that you respond to this proposal no later than May 14, 1990, in order that we may proceed with our drilling plans.

Respectfully,

MITCHELL ENERGY CORPORATION


Larry D. Cunningham
District Landman

LDC/SJS/jm

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: Rowan Petroleum, Inc. 1300 Post Oak Tower 5051 Westheimer Road Houston, Texas 77056 ATTN: MR. R. G. CROYLE	4. Article Number P547240917 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature — Agent X <i>R. G. Croyle</i>	
7. Date of Delivery 4-27	

PS Form 3811, Mar. 1987

★ U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

P 547 240 917

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
 NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1983-403-517

Sent to <i>Rowan Petroleum</i>	
Street and No.	
P.O., State and ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date 4/28/90	

PS Form 3800, Feb. 1982

4 file

May 3, 1990

EXPRESS MAIL - CERTIFIED

Rowan Petroleum, Inc.
1900 Post Oak Tower
5051 Westheimer Road
Houston, Texas 77056

Attention: Mr. R. G. Croyle

RE: Proposed Delaware Test
Milky Way State #1
MILKY WAY PROSPECT
Lea County, New Mexico



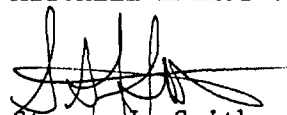
Dear Mr. Croyle:

Reference is made to Mitchell Energy Corporation's letter dated April 25, 1990, wherein Mitchell proposed the formation of a working interest unit to be made up of the SE/4 of Section 17, T-18-S, R-35-E, Lea County, New Mexico, and the drilling of a 6,700' Delaware test at a legal location in the SE/4 of said Section 17. In connection therewith, enclosed is a copy of the AAPL 610-1982 Model Form Operating Agreement with COPAS 1984 Onshore Accounting Procedure designating Mitchell as Operator referenced in said letter along with duplicate signature pages for said Operating Agreement. Duplicate copies of the AFE Cost Estimates for Dry Hole Costs and Completed Well Costs were to have been enclosed with the April 25th letter, however, due to an oversight, none were sent. Enclosed herewith are said AFE Cost Estimates.

If you elect to participate in the drilling of the proposed well, please execute and return one (1) copy each of the enclosed AFE Cost Estimates and one (1) signature page to the Operating Agreement to this office not later than May 14, 1990.

Sincerely,

MITCHELL ENERGY CORPORATION


Steven J. Smith
Senior Landman

SJS/jm

Enclosures

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. 2. ☐ Restricted Delivery
 †(Extra charge)† †(Extra charge)†

3. Article Addressed to: ROWAN PETROLEUM, INC. 1900 Post Oak Tower 5051 Westheimer Road Houston, Texas 77056 ATTN: MR. R. G. CROYLE	4. Article Number RB23126017 Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input checked="" type="checkbox"/> Express-Mail Always obtain signature of addressee or agent and DATE DELIVERED .
5. Signature — Addressee X	8. Addressee's Address (ONLY if requested and fee paid) 505 Westheimer Rd 77056
6. Signature — Agent X <i>Sandy Brady</i>	
7. Date of Delivery 5-4	

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

P 547 240 815

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
 NOT FOR INTERNATIONAL MAIL

(See Reverse)

★ U.S.G.P.O. 1983-403-517

Sent to	<i>Rowan Petroleum</i>
Street and No.	<i>1900 Post Oak Tower 5051 Westheimer</i>
P.O., State and ZIP Code	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to whom and Date Delivered	
Return receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3800, Feb. 1982

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATEType Project (check 1 only)

☒ Exploratory ☐ Injection ☐ Water Supply
☐ Development ☐ Disposal ☐ Depth 6700'

Form B-1 ☐ Add ☐ Change ☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed No. 1Project Description DrillNet Working Interest .50 _____

Group Code _____

Location Code _____

Department Number 712County Lea St. NMOperator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

DRILLING COSTSAmountINTANGIBLE

10	Dry Hole Abandonment	_____
11	Rig Mobilization and Demobilization	_____
12	Power and Fuel	_____
13	Water	_____
14	Solids Control Equipment Rental	<u>10,000</u>
*15	Directional Equipment and Services	_____
16	Fishing Tools and Services	_____
17	Subsurface Casing Equipment	<u>2,500</u>
18	Contract Labor and Services	<u>10,000</u>
19	Supervision - Company and/or Contract (15 days @ \$500/day)	<u>7,500</u>
50	Road and Site Preparation	<u>25,000</u>
51	Footage Contract Fee (6700' @ \$13.50/ft)	<u>90,500</u>
52	Daywork Contract Fee (2 days @ \$3800/day)	<u>7,600</u>
53	Mud and Chemicals (mud-up 5500')	<u>20,000</u>
54	Bits and Reamers	_____
55	Drilling Tool and Equipment Rental	<u>3,000</u>
56	Cement and Cement Services	<u>22,000</u>
*57	Open Hole Logging-Testing (incl 12 days ML @ \$350/day)	<u>4,200</u>
*58	Drill Stem Testing	_____
59	Coring and Analysis	_____
60	Transportation	<u>4,500</u>
61	Air/Marine Transportation	_____
63	Overhead	<u>5,000</u>
64	Insurance	_____
65	Company Labor and Services	_____
*66	Prospect Generation	<u>10,000</u>
67	Miscellaneous Services and Contingency	<u>10,000</u>
TOTAL INTANGIBLE COSTS		<u>\$231,800</u>

TANGIBLE

21	Casing-Drive Pipe & Conductor	_____
40	Casing - Surface 400' - 13 3/8" 48# K-S @ \$23.62/ft	<u>\$9,450</u>
41	Casing - Intermediate 3,350' - 8 5/8" 32# K-S @ \$14.00/ft	<u>46,900</u>
42	Casinghead Equipment (Including Valves) (3000 psi)	<u>3,500</u>
43	Casing Spool (Including Valves) (3000 psi)	<u>5,000</u>
44	Miscellaneous Equipment	_____
TOTAL TANGIBLE COSTS		<u>\$64,850</u>

TOTAL DRILLING (DRY HOLE) COSTS

\$296,650

* Invalid for disposal and water supply wells.

MEDC 252-02 APPROVED - ROWAN PETROLEUM, INC. Prepared By: _____

G. W. Tullos

Rev. 4/29/85

BY: _____

Date Prepared: _____

3/9/90

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

7

Type Project (check 1 only)

- ☒ Exploratory ☐ Recompletion (Zone Change Only) ☐ Disposal
☐ Development ☐ Plug and Abandon (Previously Producing Well) Depth 6700'
☐ Injection ☐ Water Supply

Form B-2 ☐ Add ☐ Change ☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed. #1

Project Description Complete

Net Working Interest . 5 0 0 0

Group Code _____

Location Code _____

Department Number 730

County Lea St. NM

Operator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

COMPLETION COSTS

Amount

INTANGIBLE

22	Overhead	\$2,000
23	Company Labor and Services	
24	Contract Labor and Services	10,000
25	Air/Marine Transportation	
26	Other Transportation	2,000
27	Plugging and Abandonment	
28	Rig Mobilization and Demobilization	
29	Supervision - Company and/ or Contract	2,000
30	Site Preparation and Clean-up	1,000
31	Subsurface Casing Equipment	2,000
32	Squeeze Cement and Service	
33	Completion Fluids	1,000
34	Pump Truck Services	2,000
35	Rental Tools	4,000
36	Bits and Reamers	
37	Insurance	
38	Wireline Services	
39	Fishing Tools and Services	
*53	Tertiary Injectants	
68	Fencing	
83	Daywork Contract Fee	6,000
84	Cement and Cement Services - Primary	15,000
85	Acidizing and Fracturing	40,000
*86	Cased Hole Logging and Perforating	7,000
94	Miscellaneous Services and Contingency	2,000

TOTAL INTANGIBLE COSTS

\$96,000

TANGIBLE

69	Tubinghead Equipment (Including Valves)	\$3,500
70	Casing-Production and/or Liner <u>6700' - 5 1/2" 17# K-55</u>	54,300
71	Tubing <u>6600' - 2 7/8" J-55</u>	26,000
72	Packers and Subsurface Equipment	
73	Production Tree (Including Valves)	
74	Storage Tanks <u>2-400 bbl steel & 1-400 bbl fiberglass</u>	13,000
75	Separating Equipment	
76	Treating Equipment <u>4x20 Heater treater</u>	7,900
77	Artificial Lift Equipment <u>C-320-305-100 w/76 rod string & pump</u>	39,000
78	Line Pipe	1,000
79	Valves and Fittings Beyond Wellhead	
80	Miscellaneous Equipment	1,300
81	Platform and Structures	
82	Metering Equipment	
87	Pumps	
90	Electrical Equipment	
91	Instrumentation Equipment	
96	Dehydrators and Dryers	
TOTAL TANGIBLE COSTS		146,000

TOTAL COMPLETION COSTS

\$242,000

* Invalid for disposal and water supply wells.

MEDC 252-03 APPROVED-ROWAN PETROLEUM, INC.

Rev. 4/29/85

Prepared By:

Jim Blount *JB*

Date Prepared:

3/8/90

BY:

GW1 - 0.2225000

8230126017

POST OFFICE
TO ADDRESSEEEXPRESS MAIL
NEXT DAY SERVICE

* R B 2 3 0 1 2 6 0 1 7 U S *

ORIGIN

5/3/90

8.75

.90

9.65

Express Mail
Corporate
Account No.Federal Agency
Account No.:

FROM:

Mr. Steve Smith
MITCHELL ENERGY CORP.
400 W. ILLINOIS, #1000
MIDLAND TX 79701-4318

MAILING LABEL
Service Analysis & Proof of Delivery

DESTINATION

Date of
Delivery

X

DELIVERY WAS
ATTEMPTEDSignature of
EmployeeWaiver of
Signature
and Indemnity
(Domestic Only)

I wish delivery to be made without obtaining the signature of the addressee or the addressee's agent (if in the judgment of the delivery employee, the article can be left in a secure location) and I authorize the delivery employee to sign that the shipment was delivered and understand that the signature of the delivery employee will constitute valid proof of delivery.

SIGNED:

TO:

Telephone Number:

ROWAN PETROLEUM, INC.
1900 Post Oak Tower
5051 Westheimer Road
Houston, Texas 77056
ATTN: MR. R. G. CROYLE

RETAIN THIS NUMBER-CUSTOMER
RECEIPT WILL BE MAILED TO YOU.

RB230126017

7
MAY 17 1990

ROWAN PETROLEUM, INC.

1900 POST OAK TOWER
5051 WESTHEIMER, HOUSTON, TEXAS 77056
TELEPHONE (713) 621-7800
TELEX: 275542

May 15, 1990

Mitchell Energy Corporation
1000 Independence
400 West Illinois
Midland, Texas 79701

Attn: Mr. Steven J. Smith
Senior Landman


Re: Proposed Delaware Test
Milky Way State No. 1
Milky Way Prospect
Lea County, New Mexico

Gentlemen:

Please be advised that Rowan Petroleum, Inc. has elected to Participate in the drilling of the proposed referenced well. Enclosed please find one copy of the AFE for the well. We will respond on the Operating Agreement after seeing Texaco's comments, if any.

Very truly yours,

ROWAN PETROLEUM, INC.


R. G. Croyle
Vice President

RGC:sr

Enclosures

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATEType Project (check 1 only)☒ Exploratory☐ Injection☐ Water Supply☐ Development☐ Disposal☐ Depth 6700'

Form B-1

☐ Add☐ Change☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed No. 1Project Description DrillNet Working Interest .50 _____

Group Code _____

Location Code _____

Department Number 712County Lea St. NMOperator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

DRILLING COSTSINTANGIBLEAmount

10	Dry Hole Abandonment	
11	Rig Mobilization and Demobilization	
12	Power and Fuel	
13	Water	
14	Solids Control Equipment Rental	10,000
*15	Directional Equipment and Services	
16	Fishing Tools and Services	
17	Subsurface Casing Equipment	2,500
18	Contract Labor and Services	10,000
19	Supervision - Company and/or Contract (15 days @ \$500/day)	7,500
50	Road and Site Preparation	25,000
51	Footage Contract Fee (6700' @ \$13.50/ft)	90,500
52	Daywork Contract Fee (2 days @ \$3800/day)	7,600
53	Mud and Chemicals (mud-up 5500')	20,000
54	Bits and Reamers	
55	Drilling Tool and Equipment Rental	3,000
56	Cement and Cement Services	22,000
*57	Open Hole Logging-Testing (incl 12 days ML @ \$350/day)	4,200
*58	Drill Stem Testing	
59	Coring and Analysis	
60	Transportation	4,500
61	Air/Marine Transportation	
63	Overhead	5,000
64	Insurance	
65	Company Labor and Services	
*66	Prospect Generation	10,000
67	Miscellaneous Services and Contingency	10,000
TOTAL INTANGIBLE COSTS		\$231,800

TANGIBLE

21	Casing-Drive Pipe & Conductor	
40	Casing - Surface 400' - 13 3/8" 48# K-S @ \$23.62/ft	\$9,450
41	Casing - Intermediate 3,350' - 8 5/8" 32# K-S @ \$14.00/ft	46,900
42	Casinghead Equipment (Including Valves) (3000 psi)	3,500
43	Casing Spool (Including Valves) (3000 psi)	5,000
44	Miscellaneous Equipment	
TOTAL TANGIBLE COSTS		\$64,850

TOTAL DRILLING (DRY HOLE) COSTS

\$296,650

* Invalid for disposal and water supply wells.

MEDC 252-02 APPROVED - ROWAN PETROLEUM, INC. Prepared By:

G. W. Tullos

Rev. 4/29/85

BY: Ph Crayle

Date Prepared:

3/9/90

G.W.I. - 0.2225000

AUTHORITY FOR EXPENDITURE (AFE) COST ESTIMATE

Type Project (check 1 only)

- ☒ Exploratory ☐ Recompletion (Zone Change Only) ☐ Disposal
☐ Development ☐ Plug and Abandon (Previously Producing Well) Depth 6700'
☐ Injection ☐ Water Supply

Form B-2 ☐ Add ☐ Change ☐ Delete

AFE Number _____

Property/Well Name Milky Way Fed. #1

Project Description Complete

Net Working Interest .5000

Group Code _____

Location Code _____

Department Number 730

County Lea St. NM

Operator MEC

Estimated Date Project Will Be Completed _____ (Mo./Yr.)

COMPLETION COSTS

INTANGIBLE

	Amount
22 Overhead	\$2,000
23 Company Labor and Services	
24 Contract Labor and Services	10,000
25 Air/Marine Transportation	
26 Other Transportation	2,000
27 Plugging and Abandonment	
28 Rig Mobilization and Demobilization	
29 Supervision - Company and/ or Contract	2,000
30 Site Preparation and Clean-up	1,000
31 Subsurface Casing Equipment	2,000
32 Squeeze Cement and Service	
33 Completion Fluids	1,000
34 Pump Truck Services	2,000
35 Rental Tools	4,000
36 Bits and Reamers	
37 Insurance	
38 Wireline Services	
39 Fishing Tools and Services	
*53 Tertiary Injectants	
68 Fencing	
83 Daywork Contract Fee	6,000
84 Cement and Cement Services - Primary	15,000
85 Acidizing and Fracturing	40,000
*86 Cased Hole Logging and Perforating	7,000
94 Miscellaneous Services and Contingency	2,000

TOTAL INTANGIBLE COSTS

\$96,000

TANGIBLE

69 Tubinghead Equipment (Including Valves)	\$3,500
70 Casing-Production and/or Liner <u>6700' - 5 1/2" 17# K-55</u>	54,300
71 Tubing <u>6600' - 2 7/8" J-55</u>	26,000
72 Packers and Subsurface Equipment	
73 Production Tree (Including Valves)	
74 Storage Tanks <u>2-400 bbl steel & 1-400 bbl fiberglass</u>	13,000
75 Separating Equipment	
76 Treating Equipment <u>4x20 Heater treater</u>	7,900
77 Artificial Lift Equipment <u>C-320-305-100 w/76 rod string & pump</u>	39,000
78 Line Pipe	1,000
79 Valves and Fittings Beyond Wellhead	
80 Miscellaneous Equipment	1,300
81 Platform and Structures	
82 Metering Equipment	
87 Pumps	
90 Electrical Equipment	
91 Instrumentation Equipment	
96 Dehydrators and Dryers	
TOTAL TANGIBLE COSTS	146,000

TOTAL COMPLETION COSTS

\$242,000

* Invalid for disposal and water supply wells.

MEDC 252-03 APPROVED-ROXAN PETROLEUM, INC
Rev. 4/29/85

Prepared By:
Date Prepared:

Jim Blount *JB*
3/8/90

BY: *[Signature]*
GWI - 0.2225000

12
JUN 11 1990

ROWAN PETROLEUM, INC.

1900 POST OAK TOWER
5051 WESTHEIMER, HOUSTON, TEXAS 77056
TELEPHONE (713) 621-7800
TELEX: 275542

June 8, 1990

Mitchell Energy Corporation
1000 Independence
400 West Illinois
Midland, Texas 79701

Attn: Mr. Steven J. Smith
Senior Landman

Re: Purchase Offer
Mallard Bay Field Properties
Cameron Parish, Louisiana

Gentlemen:

Enclosed please find one copy of the signature page to the AAPL Form 610 - Model Form Operating Agreement - 1982 for the referenced well.

That Agreement has been executed for Rowan Petroleum, Inc.'s interests by R. G. Croyle.

Very truly yours,

ROWAN PETROLEUM, INC.



J. T. Boucher

JTB:sr

Enclosure

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of April, 1990.

OPERATOR

MITCHELL ENERGY CORPORATION

BY: [Signature]
JACK J. KOVACHOVICH
WHE
[Signature]

NON-OPERATORS

TEXACO, INC.

BY: _____

ROWAN PETROLEUM, INC.

[Signature]
Stella Rodriguez
BY: [Signature]

