

Mid-Continent Region  
Production United States



P.O. Box 552  
Midland, TX 79702-0552  
Telephone 915/682-1626

November 4, 1997

CERTIFIED MAIL & RETURN  
RECEIPT REQUESTED

WORKING INTEREST OWNERS  
(Addressee List Attached)

Re: Well Proposal - Burns 34 State No. 1  
N/2 Section 34, T-18-S, R-28-E, N.M.P.M.,  
Eddy County, New Mexico

Gentlemen:

Marathon Oil Company (Marathon), as Operator, hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation, anticipated total depth being 11,200'. Furthermore, Marathon shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. N/2 of the captioned Section 34 will be dedicated as the proration unit for the well.

The above well will be located at a legal location in the NW/4 of Section 34, T-18-S, R-28-E, Eddy County, New Mexico. An AFE is enclosed for your review. Should you desire to participate in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

A Joint Operating Agreement will be provided for your review and execution upon receipt of the executed AFE, or by prior written request.

In the event you do not wish to participate, Marathon respectfully requests you elect one of the following options as to your interest:

1. Sell a two year term assignment of all of your right, title and interest in N/2 of Section 34, subject to title approval, for \$250 per net acre, delivering an 80% net revenue interest to Marathon.
2. Farmout all of your interest in the N/2 of Section 34 for a period of one hundred-eighty (180) days to Marathon under the following general terms:
  - (a) If any well drilled, deepened, completed or recompleted under the terms of our Farmout Agreement results in oil and/or gas production on a proration unit that includes your acreage, Marathon will earn an assignment of 100% of your rights and interest, free of any liens or encumbrances, in the proration unit assigned to each well from a depth of 500' below the top of the San Andres formation to a depth of 100' below the total depth drilled for each well.

OIL CONSERVATION DIVISION  
Case No. 11908 Exhibit No. 3  
Submitted By: Marathon Oil Company  
Hearing Date: February 5, 1998

Burns 34 State No. 1  
November 4, 1997  
Page -2-

- (b) Upon completion of the initial test well as a producer or dry hole, Marathon would have the recurring option, but not the obligation, to commence additional wells on New Mexico Oil Conservation approved proration units that include your acreage to establish oil and/or gas production under the captioned lands or land pooled therewith. If any such option is exercised, Marathon agrees to allow not more than 180 days to elapse between the completion of one well and the commencement of operations for any next well.
- (c) You will retain an overriding royalty interest equal to the difference, if any, between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burden or lawful claims upon production to which your leases may be currently subject, so that Marathon will be assigned a 75% net revenue interest in your lease(s) as to rights below a depth of 500' below the top of the San Andres formation to 100' below the total depth drilled. Such overriding royalty interest retained by you shall be subject to proportionate reduction.
- (d) Upon acceptance of our farmout proposal, you agree to furnish, at no cost to Marathon, title information such as copies of the leases covering the captioned lands, title opinions currently in your possession, title curative, letter agreements and any contracts currently in effect, etc.

Should the above general terms be acceptable to you, our formal Farmout Agreement will be provided under separate cover.

Your earliest response to this proposal would be greatly appreciated. If there are any questions, please call the undersigned at (915) 687-8490.

Very truly yours,



Tim B. Robertson, CPL  
Advanced Landman

TBR;mmc'  
Encl.

xc: D. K. Barker (w/o Encl.)

Burns 34 State No. 1  
N/2 Section 34, T-18-S, R-28-E  
Eddy County, New Mexico

WORKING INTEREST OWNERS:

MARATHON OIL COMPANY	37.96103%
ATLANTIC RICHFIELD COMPANY Attn: Mr. Lee Scarborough P. O. Box 1610 Midland, TX 79702-1610	12.50000%
YATES PETROLEUM CORPORATION Attn: Mr. Robert Bullock 105 S. Fourth St. Artesia, NM 88210	4.51389%
ENRON OIL & GAS COMPANY Attn: Mr. Pat Tower P. O. Box 2267 Midland, TX 79702-2267	4.80156%
LOUIS DREYFUS NATURAL GAS CORP. Attn: Mr. Rusty Waters 14000 Quail Springs Prkwy., Ste 600 Oklahoma City, OK 73134	3.99306%
READ & STEVENS, INC. Attn: Mr. Bob Watson P. O. Box 1518 Roswell, NM 88202-1518	0.68359%
MR. ROY G. BARTON., JR., TRUSTEE ROY G. BARTON, SR. AND OPAL BARTON REVOCABLE TRUST P. O. Box 978 Hobbs, NM 88240-0978	0.68359%
KCS MEDALLION RESOURCES, INC. Attn: Mr. D. R. Deffenbaugh 7130 S. Lewis Ave. Ste. 700 Tulsa, OK 74136	12.50000%
ALTURA ENERGY LTD. Attn: Mr. Jerry West P. O. Box 4294 Houston, TX 77210-4294	9.37500%
MEWBOURNE OIL COMPANY Attn: Mr. Steve Cobb 500 W. Texas, Ste. 1020 Midland, TX 79701	12.98828%

Is your RETURN ADDRESS completed on the reverse side?	<b>SENDER:</b> ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.		
	3. Article Addressed to:  <b>LOUIS DREYFUS NATURAL GAS CORP.</b> Attn: Mr. Rusty Waters 14000 Quail Springs Prkwy., Ste 600 Oklahoma City, OK 73134		4a. Article Number <b>P245 774 238</b>		
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD			
		7. Date of Delivery <b>1-10</b>			
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)			
6. Signature: (Addressee or Agent)		<input checked="" type="checkbox"/> <i>[Signature]</i>			
PS Form 3811, December 1994		Domestic Return Receipt			

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?	<b>SENDER:</b> ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.		
	3. Article Addressed to:  <b>MR. ROY G. BARTON., JR., TRUSTEE</b> <b>ROY G. BARTON, SR. AND</b> <b>OPAL BARTON REVOCABLE TRUST</b> P. O. Box 978 Hobbs, NM 88240-0978		4a. Article Number <b>P245 774 240</b>		
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD			
		7. Date of Delivery <b>11/10</b>			
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)			
6. Signature: (Addressee or Agent)		<input checked="" type="checkbox"/> <i>[Signature]</i>			
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	3. Article Addressed to:  <b>READ &amp; STEVENS, INC.</b> Attn: Mr. Bob Watson P. O. Box 1518 Roswell, NM 88202-1518		4a. Article Number <b>P245 774 239</b>		
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD			
		7. Date of Delivery <b>11-6-97</b>			
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)			
6. Signature: (Addressee or Agent)		<input checked="" type="checkbox"/> <i>[Signature]</i>			
PS Form 3811, December 1994		Domestic Return Receipt			

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- Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**ALTURA ENERGY LTD.**  
 Attn: Mr. Jerry West  
 P. O. Box 4294  
 Houston, TX 77210-4294

4a. Article Number  
 P245 774242

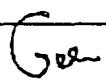
4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
 NOV 10 1994

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
 X 

PS Form 3811, December 1994 Domestic Return Receipt

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3. Article Addressed to:

**ATLANTIC RICHFIELD COMPANY**  
 Attn: Mr. Lee Scarborough  
 P. O. Box 1610  
 Midland, TX 79702-1610

4a. Article Number  
 P245 774 235

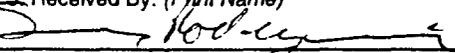
4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
 NOV 06 1997

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
 X 

PS Form 3811, December 1994 Domestic Return Receipt

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- Addressee's Address
- Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**KCS MEDALLION RESOURCES, INC.**  
 Attn: Mr. D. R. Deffenbaugh  
 7130 S. Lewis Ave. Ste. 700  
 Tulsa, OK 74136

4a. Article Number  
 P245 774 241

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
 11-10-97

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
 X

PS Form 3811, December 1994 Domestic Return Receipt

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I also wish to receive the following services (for an extra fee):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**MEWBOURNE OIL COMPANY**  
 Attn: Mr. Steve Cobb  
 500 W. Texas, Ste. 1020  
 Midland, TX 79701

4a. Article Number  
P245 774 243

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
11-6-97

5. Received By: (Print Name)  
Glenda R... ..

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

6. Sign  
**X**

PS For.

ceipt

Thank you for using Return Receipt Service.

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- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**ENRON OIL & GAS COMPANY**  
 Attn: Mr. Pat Tower  
 P. O. Box 2267  
 Midland, TX 79702-2267

4a. Article Number  
P245 774 237

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
NOV 06 1997

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)  
**X** [Signature]

PS Form 3811, December 1994

Domestic Return Receipt

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- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

**YATES PETROLEUM CORPORATION**  
 Attn: Mr. Robert Bullock  
 105 S. Fourth St.  
 Artesia, NM 88210

4a. Article Number  
P245 774 236

4b. Service Type

Registered  Certified  
 Express Mail  Insured  
 Return Receipt for Merchandise  COD

7. Date of Delivery  
11-6-97

5. Received By: (Print Name)  
JOANN GRIGGS

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

6. Signature: (Addressee or Agent)  
**X** [Signature]

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt Service.

MARATHON OIL COMPANY  
 AUTHORITY FOR EXPENDITURE  
 DETAIL OF ESTIMATED WELL COSTS

AFE NO. 660497  
 DATE October 31, 1997

Region Mid-Continent Region  
 Field/Prospect Travis  
 Lease/Facility Burns "34" State No. 1  
 Location Legal Location in NW/4, Section 34, T-18-S, R-28-E

WILDCAT  
 DEVELOPMENT  
 DEVELOPMENT EXPL  
 RECOMPLETION  
 WORKOVER

Est. Total Depth 11,200' Est. Drilling Days 32 Est. Completion Days 10

SOURCE	QUANTITY	DESCRIPTION	ACCT. CAT. - FEATURE NO.	C O N D	ESTIMATED COST
DRILLING COSTS - TANGIBLE					
		Drive Pipe	81-7		
	40'	Conductor Pipe 16" PF,	81-8		800
Purchase	425'	Surface Pipe 13-3/8", 42#, WC-40, 8rd, SIC @ \$15.75/ft.	81-9		6,700
	2,800'	Casing, Intermediate String No. 1- 9-5/8"	8-11		24,800
		Casing, Intermediate String No. 2	81-12		
		Drilling Liner	81-19		
		Drilling Liner Hanger and Tieback Equipment	81-22		
Purchase		Drilling Wellhead Equipment	81-80	1	7,000
Purchase		Miscellaneous Materials	81-217		1,000
TOTAL DRILLING COSTS - TANGIBLE					<u>\$40,300</u>

DRILLING COSTS - INTANGIBLE					
Contract		Surveying, Location & Access	81-2		500
Contract		Well Location & Access	81-5		16,000
Contract	32 days	Daywork Drilling \$6200/24 hr. Day incl. fuel	81-36		198,400
Contract		Footage Basis Drilling	81-37		3,000
		Turnkey Drilling	81-38		0
Contract		Drilling Rig Mob/Demob	81-39		20,000
Contract		Blowout Prevention Equipment	81-41		5,500
		Drill Pipe & Collars	81-44		0
		Drilling & Service Tools	81-45		0
		Drilling Services	81-50		0
		Snubbing Units, Company	81-62		0
		Snubbing Units, Contract	81-68		0
Contract		Mud System/Solids Control	81-40		3,500
Contract		Mud and Mud Services	81-71		22,500
Contract		Bits	81-69		40,000
Contract		Stabilizers, Hole Openers, Underreamers	81-70		5,000
		Oil	81-72		0
		Grease	81-72		0
		Fuel, Diesel (Not furnished by Contractor)	81-74		0
Contract		Water	81-336		14,000
Contract		Casing Tools and Services	81-90		8,000
		Cement and Cementing Service	81-91		18,000
Contract		Logging Services, Open Hole	81-93		30,000
		Logging Services, Cased Hole	81-94		0
Contract	21 days	Mud Logging	81-95		11,600
Contract		Inspection, Pipe & Casing	81-97		4,500
		Directional Services	81-101		0
		Coring	81-102		0
Contract		Formation Testing, Open Hole	81-104		5,000
		Formation Testing, Cased Hole	81-105		0
Contract		Well Control Services (Super Choke)	81-120		2,100
Contract		Trucking/Transportation, Other	81-126		5,000
		Well Test Equipment	81-127		0
		Fishing Tools and Services	81-133		0
		Abandoning Tools and Services	81-136		0
		Sidetracking, Milling Sections, Whipstocks	81-185		0
Contract		Miscellaneous Materials	81-217		3,000
Contract		Contract Labor, Welding	81-233		2,200
Contract	32 days	Contract Labor, Other	81-237		13,600
Contract	32 days	Contract Services, Living Quarters	81-243		4,800
		Contract Services, Other	81-266		0
Contract	21 days	Hydrogen Sulfide Testing	81-320		2,100
		Spill Control Equipment	81-454		0
		Computer Hardware	81-568		0
Contract	32 days	Communications, Field	81-658		800
		Regulatory Compliance	81-685		0
MOC	32 days	Company Labor & Burden	81-750		12,000
		Overhead	81-770		0
		Indirect Expense	81-779		0
TOTAL DRILLING COSTS - INTANGIBLE					<u>\$ 451,100</u>

TOTAL DRILLING COSTS \$ 491,400

Region Mid-Continent Region  
 Field/Prospect Travis  
 Lease/Facility Burns "34" State No. 1

SOURCE	QUANTITY	DESCRIPTION	ACCT. CAT. - FEATURE NO.	C O N D	ESTIMATED COST
COMPLETION COSTS - TANGIBLE					
Purchase	11,200'	Production Casing 5-1/2"	82-15	I	92,000
		Production Liner	82-18		
		Production Liner Hanger & Tieback Equipment	82-21		
	11,200'	Tubing (2-3/8", 4.7#, L-80)	82-23	I	36,000
Purchase		Wellhead Equipment (drilling)	82-80	I	4,500
		Christmas Tree	82-87		9,000
		Packers	82-137	I	6,000
		Rod Pump	82-143		
		Electric Submersible Pump	82-149		
Purchase		Completion Wellhead Equipment	82-167	I	4,700
TOTAL COMPLETION COSTS - TANGIBLE					\$ 152,200

COMPLETION COSTS - INTANGIBLE					
Contract		Location and Access	82-1		1,500
Contract		Drilling Rig During Completion - \$6200/day	82-34		12,400
		Blowout Preventer	82-41		2,000
		Tools - Drilling & Service	82-45		
		Rig, Completion	82-48		
		Workover Units, Company	82-55		
		Workover Units, Contract 8 @ \$400/day	82-56		11,200
		Snubbing Units, Company	82-62		
		Coiled Tubing Service Units, Contract	82-67		
		Snubbing Units, Contract	82-68		
		Underreamers, Stabilizers, Hole Openers	82-70		
		Lubricants	82-72		
		Fuel, Diesel	82-74		
		Casing Tools and Services - Longstring	82-90		9,500
Contract		Cement and Cementing Services - Longstring	82-91		28,000
		Logging Services, Open Hole Wells	82-93		
		Logging Services, Cased Hole Wells	82-94		3,500
		Tubular Inspection, Testing & Cleaning (Hydro Test)	82-96		7,000
		Formation Testing PBU	82-103		4,000
		Formation Treating Pickle Tbg., EOB NZL Fluid	82-113		20,000
		Transportation, Other	82-126		3,500
		Test Equipment - Well Testing	82-127		4,000
		Fishing Tools and Services	82-133		
		Completion and Packer Fluids	82-180		1,000
		Perforating - EOB	82-182		19,000
		Wireline Services	82-183		1,500
		Sidetracking, Milling Sections, Whipstocks	82-185		
		Miscellaneous Materials	82-217		3,500
		Miscellaneous Services	82-218		7,000
		Contract Labor, Laborer	82-234		3,000
		Contract Services, Other	82-240		7,400
		Treating Chemicals, Other	82-291		1,000
		Salt Water Disposal & Trans Fees	82-371		1,000
		Rental Tools & Equip.	82-585		5,000
		Communications - Field	82-658		
		Regulatory Compliance	82-685		
		Company Labor & Burden	82-750		3,800
		Overhead	82-770		
		Indirect Expense	82-779		
TOTAL COMPLETION COSTS - INTANGIBLE					\$ 159,800

TOTAL COMPLETION COSTS \$ 312,000

Region Mid-Continent Region  
 Field/Prospect Travis  
 Lease/Facility Burns "34" State No. 1

SOURCE	QUANTITY	DESCRIPTION	ACCT. CAT. - FEATURE NO.	C O N D	ESTIMATED COST
SURFACE EQUIPMENT - TANGIBLE					
		Line Pipe	83-27	I	1,600
		Transportation, Other	83-126		2,500
		Pumping Unit	83-141		
		Pumping Equipment - Rod Pump	83-143		
		Flowing/Plunger Lift Equipment	83-146		
		Submersible Pump - Electric	83-149		
		Submersible Pump - Hydraulic	83-152		
		Gas Lift Equipment	83-155		
		Pumps	83-158		
		Tanks	83-170		10,000
		Metering Equipment	83-190		4,000
		Instrumentation	83-194		
		Electrical Equipment, Other	83-201		
		Valves	83-205	I	2,500
		Miscellaneous Materials	83-217	I	10,000
		Contract Labor, Electrical	83-229		
		Contract Labor, Welding	83-233		1,000
		Contract Labor, Other	83-237		4,000
		Contract Services, Other	83-240		2,000
		Compressor Installation	83-365		
		Dehydration	83-376		10,000
		Crude Oil Treaters	83-378		
		Separator	83-380		12,000
		Vapor Recovery Units	83-386		
		Free Water Knockouts	83-388		
		Regulatory Compliance (Includes Permitting)	83-685		
		Company Labor & Burden	83-750		2,000
TOTAL SURFACE EQUIPMENT - TANGIBLE					\$ 61,600

ENVIRON. COSTS	SUMMARY OF ESTIMATED DRILLING WELL COSTS		(	%)
Spill Cleanup 41 _____ %	Total Drilling Cost	\$ 491,400	\$	
Remediation 42 _____ %	Total Completion Cost	\$ 312,000	\$	
Air 43 _____ %	Total Surface Equipment	\$ 61,600	\$	
Water 44 _____ %	Grand Total Cost	\$ 865,000	\$	
Solid Waste 45 _____ %	Marathon's Share of Grand Total Cost to be Booked This Year	\$ _____		
Other 47 _____ %	If Wildcat Well, Give Marathon's Share of Dry Hole Cost	\$ _____		
Non-ENV _____ %				
Total 100%				

PARTICIPANT APPROVAL

Participant Name: \_\_\_\_\_  
 Signature: \_\_\_\_\_  
 Title: \_\_\_\_\_  
 Date: \_\_\_\_\_