

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

August 31, 1998

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Dale Douglas
P. O. Box 10187
Midland, Texas 79702

RE: Poco Mesa "26" Federal Com. #1 Well
1,650' FEL and 660' FNL
Section 26, T-18-S, R-24-E
Eddy County, New Mexico
Poco Mesa Prospect

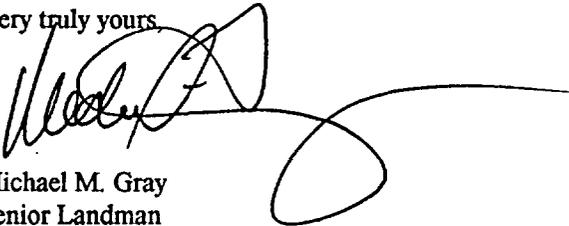
Dear Dale:

Nearburg Exploration Company, L.L.C. hereby proposes the drilling of the Poco Mesa "26" Federal Com. #1 well to be drilled at the captioned location to a depth of 8,800' or to a depth sufficient to test the Morrow formation. Enclosed is our Authority for Expenditure estimating the cost of drilling the proposed well, along with an Operating Agreement covering the N/2 of Section 26, T-18-S, R-24-E, Eddy County, New Mexico.

If you desire to participate in our proposed well, please execute and return one (1) copy of the enclosed AFE, along with one executed and acknowledged set of signature pages for the enclosed Operating Agreement, along with a set of executed and acknowledged signature pages for Exhibit "F" to the Operating Agreement.

If you have any questions, please contact me at the letterhead address and phone number.

Very truly yours,



Michael M. Gray
Senior Landman

MMG/dw
encl.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12072 Exhibit No. 3
Submitted By:
Nearburg Exploration Co.
Hearing Date: November 5, 1997

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Poca Mesa 26 Federal WELL NUMBER: 1 PROPOSED TOTAL DEPTH: 8,800'
 LOCATION: 1,650'FEL & 660 FNL, Section 26, T18S, R24E, Eddy County, NM
 FIELD: Wildcat PROSPECT: Morrow EXPLORATORY, DEVELOPMENT, WO: E
 DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer.

DATE PREPARED: 8/24/98 EST. SPUD DATE: Oct 1998 EST. COMPLETION DATE: Nov 1998
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 8,800 Ft @ 19.50 \$/Ft	1514.101	171,600	NA		171,600
Drilling Daywork D/C/\$/day 2 2 5200	1514.105	10,400	1515.105	10,400	20,800
Drilling Turnkey	1514.110		1515.110		0
Rig Mobilization and Demobilization	1514.115		1515.115		0
Road & Location Expense	1514.120	20,000	1515.123	3,000	23,000
Damages	1514.125	5,000	1515.125		5,000
Directional Drilling - Tools and Service	1514.130		1515.130		0
Drilling Fluids	1514.135	25,000	1515.132	1,000	26,000
Fuel, Power, and Water	1514.140	15,000	1515.140	1,500	16,500
Supplies - Bits	1514.145		1515.145	1,000	1,000
Supplies - Casing Equipment	1514.150	1,500	1515.150	8,000	9,500
Supplies - Liner Equipment	1514.155		1515.155		0
Supplies - Miscellaneous	1514.160	500	1515.160		500
Cement and Cmt. Services - Surface Csg	1514.165	4,000	NA		4,000
Cement and Cmt. Services - Int. Csg	1514.170	12,000	NA		12,000
Cement and Cmt. Services - Prod. Csg	NA		1515.172	25,000	25,000
Cement and Cmt. Services - Other	1514.175		1515.175		0
Rental - Drilling Tools and Equipment	1514.180	500	1515.180		500
Rental - Miscellaneous	1514.185	15,000	1515.185	5,000	20,000
Testing - Drill Stem / Production	1514.195	10,000	1515.195		10,000
Open Hole Logging	1514.200	25,000	NA		25,000
Mudlogging Services	1514.210	10,000	NA		10,000
Special Services	1514.190		1515.190		0
Plug and Abandon	1514.215	10,000	1515.215	(10,000)	0
Pulling and/or Swabbing Unit	NA		1515.217	12,000	12,000
Reverse Equipment	NA		1515.219	3,000	3,000
Wireline Services	1514.205		1515.205	12,000	12,000
Stimulation	NA		1515.221	100,000	100,000
Pump / Vacuum Truck Services	1514.220	1,000	1515.220	2,500	3,500
Transportation	1514.225	1,500	1515.225	4,000	5,500
Tubular Goods - Inspection & Testing	1514.230		1515.230	8,000	8,000
Unclassified	1514.245		1515.245		0
Telephone and Radio Expense	1514.240	500	1515.240	500	1,000
Engineer / Geologist / Landman	1514.250	3,500	1515.250	2,500	6,000
Company Labor - Field Supervision	1514.255	5,000	1515.255	5,000	10,000
Contract Labor / Roustabout	1514.265	1,500	1515.265	5,000	6,500
Legal and Professional Service	1514.270	2,500	1515.270	1,000	3,500
Insurance	1514.275	6,000	1515.275	1,000	7,000
Overhead	1514.280	6,000	1515.280	1,000	7,000
SUBTOTAL		363,000		202,400	565,400
Contingencies (10%)		36,300		20,240	56,540
ESTIMATED TOTAL INTANGIBLES		399,300		222,640	621,940

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Poca Mesa 26 Federal WELL NUMBER: 1 PROPOSED TOTAL DEPTH: 8,800'
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 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	1520.305		NA		0
Surface Csg 350 Ft @ 24.00 \$/Ft	1520.310	8,400	NA		8,400
Intermediate Csg 1,200 Ft @ 14.00 \$/Ft	1520.315	16,800	NA		16,800
Protection Csg Ft @ \$/Ft	1520.320	0	NA		0
Production Csg 8,800 Ft @ 9.00 \$/Ft	NA		1522.325	79,200	79,200
Protection Liner Ft @ \$/Ft	1520.330	0	NA		0
Production Liner Ft @ \$/Ft	NA		1522.335	0	0
Tubing 8,600 Ft @ 3.45 \$/Ft	NA		1522.340	29,670	29,670
Rods Ft @ \$/Ft	NA		1522.345	0	0
Artificial Lift Equipment	NA		1522.350		0
Tank Battery	NA		1522.355	10,000	10,000
Separators/Heater Treater/Gas Units/FWKO	NA		1522.360	15,000	15,000
Well Head Equipment & Christmas Tree	1520.365	1,500	1522.365	12,000	13,500
Subsurface Well Equipment	NA		1522.370	5,000	5,000
Flow Lines	NA		1522.375	17,000	17,000
Saltwater Disposal Pump	NA		1522.391		0
Gas Meter	NA		1522.385	3,000	3,000
Lact Unit	NA		1522.387		0
Vapor Recovery Unit	NA		1522.389		0
Other Well Equipment	NA		1522.390	2,000	2,000
ROW and Damages	NA		1522.393	2,500	2,500
Surface Equipment Installation Costs	NA		1522.395	6,000	6,000
Elect. Installation	NA		1522.397		0
ESTIMATED TOTAL TANGIBLES		26,700		181,370	208,070
ESTIMATED TOTAL WELL COSTS		426,000		404,010	830,010

NPC APPROVAL	DATE
PREPARED BY: H.R. Willis	8/18/98
APPROVED BY: E. Scott Kimbrough	8/18/98
APPROVED BY: <i>[Signature]</i>	9/11/98
APPROVED BY: <i>[Signature]</i>	9/10/98

WI APPROVAL: COMPANY Dale Douglas 50.0000%
 BY _____
 TITLE _____
 DATE _____

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- 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.

*Poco Mesa -
Miche Ray*

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:

Mr. Dale Douglas
P. O. Box 10187
Midland, Texas 79702

4a. Article Number

P 497-370-004

4b. Service Type

- Registered
- Certified
- Express Mail
- Insured
- Return Receipt for Merchandise
- COD

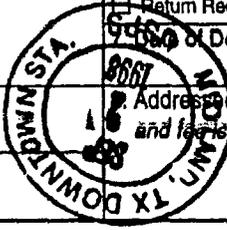
4c. Restricted Delivery

5. Received By: (Print Name)

6. Signature: (Addressee or Agent)

[Signature]

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



Thank you for using Return Receipt Service.

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

P 497 370 004

US Postal Service
Receipt for Certified Mail

No Insurance Coverage Provided.

Dr. _____ (e)	
Mr. Dale Douglas P. O. Box 10187 Midland, Texas 79702	
Certified Fee	\$.
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	<i>Poco Mesa</i>

PS Form 3800, April 1995

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

October 12, 1998

David H. Arrington Oil & Gas, Inc.
200 West Texas *214 West Texas Ave, Suite 400*
Midland, Texas 79701

Re: Poco Mesa "26" Federal Com. #1 Well
1,650' FEL and 660' FNL
Section 26, T-18-S, R-24-E
Eddy County, New Mexico
Poco Mesa Prospect

Gentlemen:

By certified letter dated August 31, 1998, we proposed the captioned well to Mr. Dale Douglas, then the record title owner of United States Lease #NM-101077, covering the NW/4 Section 26, T-18-S, R-24-E, Eddy County, New Mexico. Mr. Douglas has informed us that he has or will assign his interest in this lease to you. We enclose herewith the AFE and Operating Agreement which were presented to Mr. Douglas and which have been amended to reflect David H. Arrington Oil & Gas, Inc. as the owner of the NW/4 of Section 26.

If you desire to participate in our proposed well, please execute and return one copy of the enclosed AFE along with one executed and acknowledged set of signature pages for the enclosed Operating Agreement, along with a set of executed, acknowledged signature pages for Exhibit "F" to the Operating Agreement.

Pursuant to Bill Baker's telephone request, we are enclosing copies of the mud log and electric logs for the Mucho Mesa "24" State #1 well located in the SW/4 of Section 24, T-18-S, R-24-E. If you are interested, we would be willing to share our geological interpretation for our proposed location.

Please call me if you have any questions.

Yours very truly,


Michael M. Gray
Senior Landman

MMG/dw

Nearburg Producing Company

Exploration and Production
Dallas, Texas

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Nearburg Producing Company

Exploration and Production
Dallas, Texas

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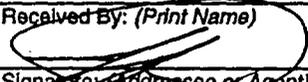
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Production Liner Ft @ \$/Ft	NA		1522.335	0	0
Tubing 8,600 Ft @ 3.45 \$/Ft	NA		1522.340	29,670	29,670
Rods Ft @ \$/Ft	NA		1522.345	0	0
Artificial Lift Equipment	NA		1522.350		0
Tank Battery	NA		1522.355	10,000	10,000
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ESTIMATED TOTAL WELL COSTS		426,000		404,010	830,010

NPC APPROVAL	DATE
PREPARED BY: H.R. Willis	8/18/98
APPROVED BY: E. Scott Kimbrough	8/18/98
APPROVED BY: 	9/11/98
APPROVED BY: 	9/15/98

WI APPROVAL: COMPANY David H. Arrington Oil & Gas, Inc. 50.0000%
BY _____
TITLE _____
DATE _____

Is your RETURN ADDRESS completed on the reverse side?

SENDER: ■ 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.		POCO MESA - mike	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: David H. Arrington Oil & Gas, Inc. 200 West Texas Midland, TX 79701		4a. Article Number P497 370 052	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery 10/13/94	
5. Received By: (Print Name) 		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature of Addressee or Agent X Jeffrey Lane			

Thank you for using Return Receipt Service.

P 497 370 052

US Postal Service
Receipt for Certified Mail

No Insurance Coverage Provided.
 Do not use for International Mail (See reverse)

Sent to	
David H. Arrington	
Street & Number	
Oil & Gas, Inc.	
Post Office, State, & ZIP Code	
200 W. Texas, Midland, TX	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
POCO MESA	

PS Form 3800, April 1995

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

October 27, 1998

David H. Arrington Oil & Gas, Inc.
214 West Texas Ave., Suite 400
Midland, Texas 79701

Re: Poco Mesa "26" Federal Com. #1 Well
1,650' FEL and 660' FNL
Section 26, T-18-S, R-24-E
Eddy County, New Mexico
Poco Mesa Prospect

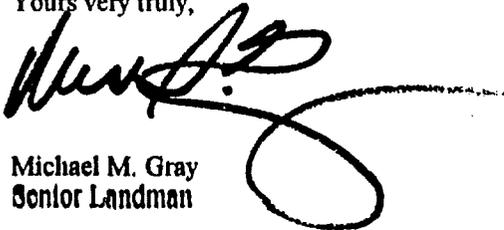
Gentlemen:

Nearburg Exploration Company, L.L.C. (NEC) has proposed the drilling of the captioned well as an 8,800' Morrow test for a proration unit comprising the N/2 of Section 26, T-18-S, R-24-E. We have discussed the possibility of sharing our geological information with you. We will present our geological picture to you if Arrington will agree to one of the following prior to the presentation of the geological information:

- 1) Arrington will agree to participate as to its one-half interest in the well under the terms our Operating Agreement, or;
- 2) if Arrington does not elect to participate in the well, Arrington will either farmout to NEC for the drilling of the well, retaining an overriding royalty equal to the difference between burdens and 25%, or Arrington will deliver a one year Term Assignment to NEC for the cash consideration of \$130.00 per net acre reserving an overriding royalty equal to the difference between burdens and 17.5%.

Please contact me if this proposal is agreeable to you.

Yours very truly,



Michael M. Gray
Senior Landman

MMG/dw

cc: Dale Douglas
P. O. Box 10187
Midland, Texas 79702