

DRUM ENERGY
CORPORATION

P.O. Box 2134
Midland, Texas 79702
915/684-9081
Fax 915/683-3520

June 11, 1993

W. Rey Williams
P.O. Box 1291
Tulsa, OK

Re: SW/4 Section 35, T19S-R38E, Lea
County, NM

Dear Mr. Williams,

Records indicate that you own a .625% mineral interest (1 net acre) under the above captioned property. Drum Energy Corporation intends to drill a well on this acreage to test the Blinbry Formation as soon as practicable. We offer to lease or to purchase your interest. General lease terms offered are: \$100 per net mineral acre bonus, 1/4 royalty, and 1 year primary term. We offer \$300 per net mineral acre for purchase of your interest.

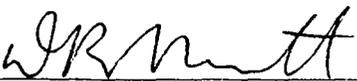
If, instead, you would like to participate in this project to the extent of your mineral ownership we require execution of the enclosed Authority for Expenditure and a deposit of your share of estimated completed well costs at this time.

Operations will be conducted by Drum Energy Corporation under the A.A.P.L. Form 610-1982 Model Form Operating Agreement with COPAS-1984 Accounting Procedure. Drilling overhead to be \$3000 per month; workover and producing overhead to be \$300 per month per well. There will be no gas balancing agreement; operator will contract gas sales for the working interest owners. Working interest owners will pay in their proportionate share of \$7500 cash plugging bond on each well. This amount is refundable when plugging occurs and will bear interest to be credited to the working interest owners.

Please indicate your choice by checking the appropriate space below and signing and returning this letter. An extra copy is provided. If you are returning the Authority for Expenditure and deposit, no action is needed here.

A stamped return envelope has been enclosed for your convenience. Thank you.

Yours truly,
DRUM ENERGY CORPORATION

By: 
David R. Mussett, President

We wish to lease.

We wish to sell.

By: _____

Date: _____

Drum Energy Corporation
Case No. 10776
Before Examiner Stogner
Exhibit No. 3

**AUTHORITY FOR EXPENDITURE
DRUM ENERGY CORP.
HOUSE PROSPECT
FRANCIS EVELYN #1**

INTANGIBLE	PRODUCER	DRY HOLE
Abstract/Title opinion	\$ 6,000	\$ 6,000
Survey/Location/Damages	5,000	5,000
Drilling footage @ \$11.00	68,200	68,200
Rotary day work: 2 days @ \$4200	8,400	8,400
Pulling unit: 4 days @ \$1200	4,800	
Drilling fluid & trucking	8,000	8,000
Drilling mud and chemicals	4,000	4,000
Surface csg. cement & hardware	4,000	4,000
Production csg. cement & DV tool	22,900	
Pit lining	750	750
Mud logging	1,000	1,000
Open hole logging	5,600	5,600
Perforating	1,200	
Acidizing	2,200	
Frac	25,000	
Engineering/Supervision	4,500	3,600
Rental equipment	2,500	1,500
Trucking and forklift	4,000	2,500
Labor: surface installations	2,500	
Overhead	1,500	1,200
Plugging (cement, dry hole marker, site restoration)		4,000
Contingencies: 10%	<u>17,600</u>	<u>11,800</u>
TOTAL INTANGIBLE	\$ 193,650	\$ 129,550
 TANGIBLE		
Surface csg.: 1600 feet 8 5/8 @ \$8.00	12,800	12,800
Production csg.: 6200 feet 5 1/2 @ \$3.75	23,250	
Tubing: 6200 feet 2 7/8 @ \$2.25	13,950	
Rods: 6200 feet @ .90	5,580	
Downhole pump	1,200	
Wellhead	1,750	750
Flowlines and connections	2,000	
Tankage: (2) 300 steel, (1) 500 fiberglass	8,000	
Pumping unit and base	15,000	
Motor and controls	2,500	
Heater treater	2,500	
Electrification	3,500	
Contingencies: 10%	<u>9,200</u>	<u>1,350</u>
TOTAL TANGIBLE	\$ 101,230	\$ 14,900
Cash plugging bond:	7,500	
TOTAL	\$ 302,380	\$ 144,450
 YOUR SHARE: 0.00625 WI	 \$ 1,890	 \$ 903

It is recognized and understood that the amounts herein are estimates only and that approval of this authorization shall extend to the actual costs incurred in the conduct of the operation specified whether more or less than set out herein.

APPROVED BY WORKING INTEREST OWNER:
W. Rey Williams

DRUM ENERGY CORP.

By: DR Williams H 6/11/93
Date

Date

