

January 24, 1979

Mr. Robert B. Coleman
P. O. Box 501
Midland, Texas 79702

RE: HNG-Williams "35" Com. #1
Eddy County, New Mexico

Dear Mr. Coleman:

You have advised us verbally that you are acquiring an oil and gas lease from the heirs of Burt Schurr covering the N/2 SW/4 NW/4 NW/4 of Section 35, T-23-S, R-28-E, Eddy County, New Mexico.

This company failed in its efforts to locate the present owners of the above described 5 acre tract and elected to proceed with the drilling of its Williams "35" Com. #1 Well located 660' FNL and 2310' FWL of Section 35, T-23-S, R-28-E, Eddy County, New Mexico. This test well will be drilled to sufficiently test the Morrow formation at an estimated depth of 13,400'.

On January 9, 1979 application was made (copy attached) to the Oil Conservation Division of New Mexico for compulsory pooling of all oil and gas mineral interests in the Pennsylvanian formation in and under the N/2 of said Section 35. A hearing is set for January 31, 1979 in Santa Fe, New Mexico.

Assuming you do have a valid lease covering the interests of the owners of the above mentioned 5 acre tract, we invite you to commit same to a 320 acre unit covering the N/2 of said Section 35 and to participate in the drilling of the HNG-Williams "35" Com. #1 as a working interest (1.5625%) owner. In lieu thereof, we would be agreeable to assuming your position on a farmout basis with you retaining a 1/16th overriding royalty interest with the option to convert same to a 1/2 working interest at payout of the well, both proportionately reduced.

A copy of our AFE for the drilling of the Williams "35" Com. #1 is enclosed herewith.

Yours very truly,

HNG OIL COMPANY

Raymond Parker
Raymond Parker
Manager of Lands

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION

HNG EXHIBIT NO. 3

CASE NO. 6431

Submitted by _____

HRP/jw Date _____
encls.