

**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 16, 2001

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

TO WORKING INTEREST OWNERS:  
(See Distribution List)

RE: Wapiti "31" State Com. #1 Well  
1,650' FSL and 660' FEL  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico  
Wapiti Prospect

Gentlemen:

Please find the attached AFE for the drilling and completion of the captioned well as a Morrow well to be drilled to an approximate depth of 13,700'. Such well shall be drilled on a proration unit covering the E/2 of Section 31, T-18-S, R-34-E. If you elect to participate in this well, please sign the attached AFE and return to Nearburg at the letterhead address.

In the event you elect not to participate in this well, Nearburg requests a farmout of your leasehold within the E/2 of Section 31, T-18-S, R-34-E under the following terms:

- 1) Nearburg to spud a Morrow test at a location of it's choice within the E/2 of Section 31, T-18-S, R-34-E, Lea County, New Mexico, within one hundred eighty (180) days of the effective date of the Farmout Agreement.
- 2) Upon completion of such initial well as a producer, you shall assign 100% of it's leasehold rights, delivering a 75% NRI to Nearburg.
- 3) Mewbourne shall retain an overriding royalty interest equal to the difference between existing burdens and 75% with the option to convert such ORRI to a 25% working interest at payout of such well.
- 4) The Farmout Agreement shall contain a one hundred eighty (180) day continuous development provision.

Please review this AFE and if you elect to participate, Nearburg shall forward a Joint Operating Agreement to you for your review; however, in the event you elect not to participate, please take the farmout request into serious consideration. If you have any questions or comments, please call me at (915) 686-8235.

Sincerely,



Curtis D. Smith  
Senior Landman

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12791 Exhibit No. 3  
Submitted by:  
Nearburg Exploration Company, L.L.C.  
Hearing Date: January 10, 2002

Wapiti "31" State Com. #1 Well  
1,650' FSL and 660' FEL  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico

C. W. and Jackie Trainer ✓  
500 W. Texas, Suite 710  
Midland, Texas 79701

Kaiser-Francis Oil Co.  
6733 S. Yale  
Tulsa, OK 74136

Hamon Operating Co. *New Reg*  
RepublicBank Tower  
325 N. St. Paul, Suite 3900  
Dallas, Texas 75201-3902

Kudo Petroleum LLC ✓  
P. O. Box 600490  
Dallas, Texas 75360-0490

Marvin C. and Wynell Gross ✓  
P. O. Box 358  
Roswell, New Mexico 88202-0358

Mexco Energy Corp., fka ✓  
Miller Oil Co.  
P. O. Box 10502  
Midland, Texas 79702

Mika Petroleum LLC ✓  
P. O. Box 8154  
Dallas, Texas 75205-0154

Loretta D. Lowe ✓  
c/o Larry K. Lowe  
2313 Broadway  
Lubbock, Texas 79401

Larry K. Lowe ✓  
2313 Broadway  
Lubbock, Texas 79401

Brady M. Lowe ✓  
c/o Larry K. Lowe  
2313 Broadway  
Lubbock, Texas 79401

**Nearburg Producing Company**

Exploration and Production  
Dallas, Texas

**AUTHORITY FOR EXPENDITURE**

LEASE: Wapiñ 31 State Com WELL NUMBER: 1 PBTD: 13,700'  
 LOCATION: 1,650' FSL & 660' FEL, Section 31, T18S, R34E, Lea County NM  
 FIELD: Morrow EXPLORATORY, DEVELOPMENT, WORKOVER: E  
 DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer. Fracture stimulation is included.

DATE PREPARED: 10/2/01 EST. START DATE: 3/1/02 EST. COMPLETION DATE: 5/1/02  
 ACCOUNTING WELL NUMBER:  
 COMMUNICATIONS ACCOUNT NUMBER:

<b>INTANGIBLE COSTS:</b>			CODE	TO CSG PT		CODE	COMPLETION	TOTAL WELL
Drilling Footage	13,700 Ft @	0.00 \$/Ft	1514.101	0		NA	0	0
Drilling Daywork	50 2	9,000 \$/day	1514.125	477,000		1515.105	19,080	496,080
Drilling Turnkey			1514.110	0		1515.110	0	0
Rig Mobilization and Demobilization			1514.115	37,100		1515.115	0	37,100
Road & Location Expense			1514.120	32,595		1515.120	3,180	35,775
Damages			1514.125	5,000		1515.125	0	5,000
Directional Drilling - Tools and Service			1514.150	0		1515.150	0	0
Drilling Fluids			1514.135	53,000		1515.135	0	53,000
Fuel, Power, and Water			1514.140	84,800		1515.140	0	84,800
Supplies - Bits			1514.145	56,710		1515.145	795	57,505
Supplies - Casing Equipment			1514.160	2,120		1515.160	7,420	9,540
Supplies - Liner Equipment			1514.155	0		1515.155	0	0
Supplies - Miscellaneous			1514.165	0		1515.165	0	0
Cement and Cmt. Services - Surface Csg			1514.165	12,720		NA	0	12,720
Cement and Cmt. Services - Int. Csg			1514.170	21,200		NA	0	21,200
Cement and Cmt. Services - Prod. Csg			NA	0		1515.172	21,200	21,200
Cement and Cmt. Services - Other			1514.175	0		1515.175	0	0
Rental - Drilling Tools and Equipment			1514.180	13,038		1515.180	0	13,038
Rental - Misc.			1514.185	40,439		1515.185	3,710	44,149
Testing - Drill Stem / Production			1514.185	4,770		1515.195	5,300	10,070
Open Hole Logging			1514.200	37,100		NA	0	37,100
Mudlogging Services			1514.210	21,200		NA	0	21,200
Special Services			1514.190	0		1515.190	0	0
Plug and Abandon			1514.215	15,000		1515.215	(15,000)	0
Pulling and/or Swabbing Unit			NA	0		1515.217	18,550	18,550
Reverse Equipment			NA	0		1515.219	5,300	5,300
Wireline Services			1514.205	0		1515.205	15,900	15,900
Stimulation			NA	0		1515.221	121,900	121,900
Compress / Vacuum Truck Services			1514.220	0		1515.220	5,944	5,944
Transportation			1514.225	9,540		1515.225	6,360	15,900
Cylindrical Goods - Inspection & Testing			1514.230	3,180		1515.230	5,300	8,480
Unclassified			1514.245	530		1515.245	0	530
Telephone and Radio Expense			1514.240	1,590		1515.240	638	2,228
Engineer / Geologist / Landman			1514.250	22,500		1515.250	2,500	25,000
Company Labor - Field Supervision			1514.255	27,560		1515.255	7,500	35,060
Contract Labor / Roustabout			1514.265	8,480		1515.265	11,130	19,610
Legal and Professional Service			1514.270	5,000		1515.270	0	5,000
Insurance			1514.275	11,306		1515.275	0	11,306
Overhead			1514.280	12,600		1515.280	3,500	16,100
<b>BTOTAL</b>				<b>1,016,078</b>			<b>250,205</b>	<b>1,266,284</b>
Contingencies (10%)				101,608			25,021	126,629
<b>ESTIMATED TOTAL INTANGIBLES</b>				<b>1,117,686</b>			<b>275,226</b>	<b>1,392,913</b>



To: Loyetta D. Lowe  
 Rec: c/o Larry K. Lowe  
 2313 Broadway  
 Lubbock, Texas 79401

Weight: 31.1

**CERTIFIED MAIL RECEIPT**  
 Domestic Mail Only. No Insurance Coverage Provided.

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address in block letters on separate lines. Do not use abbreviations.
- Attach this receipt to the back of the mailpiece.

1. Name of Sender  
 2. Street Address  
 3. City, State, ZIP+4

79401 340 0200

**COMPLETE THIS SECTION ON DELIVERY**

A. Recipient's Name (Please Print Clearly) B. Date of Delivery  
 Beldar Earl 10/17/01  
 Addressee: Bernice Earl  
 Agent  
 Addressee  
 Yes  
 No

Registered Mail  Express Mail  
 Return Receipt for Merchandise  
 C.O.D.  
 Yes

79401 340 0200

To: Larry K. Lowe  
 Rec: 2313 Broadway  
 Lubbock, Texas 79401

Weight: 31.1

**U.S. Postal Service  
 CERTIFIED MAIL RECEIPT**  
 Domestic Mail Only. No Insurance Coverage Provided.

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- Attach this receipt to the back of the mailpiece.

1. Name of Sender  
 2. Street Address  
 3. City, State, ZIP+4

79401 340 0200

**COMPLETE THIS SECTION ON DELIVERY**

A. Recipient's Name (Please Print Clearly) B. Date of Delivery  
 Bernice Earl 10/17/01  
 Agent  
 Addressee  
 Yes  
 No

Registered Mail  Express Mail  
 Return Receipt for Merchandise  
 C.O.D.  
 Yes

79401 340 0200

To: Brady M. Lowe  
 Rec: c/o Larry K. Lowe  
 2313 Broadway  
 Lubbock, Texas 79401

Weight: 31.1

**U.S. Postal Service  
 CERTIFIED MAIL RECEIPT**  
 Domestic Mail Only. No Insurance Coverage Provided.

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- Attach this receipt to the back of the mailpiece.

1. Name of Sender  
 2. Street Address  
 3. City, State, ZIP+4

79401 340 0200

**COMPLETE THIS SECTION ON DELIVERY**

A. Recipient's Name (Please Print Clearly) B. Date of Delivery  
 Bernice Earl 10/17/01  
 Agent  
 Addressee  
 Yes  
 No

Registered Mail  Express Mail  
 Return Receipt for Merchandise  
 C.O.D.  
 Yes

79401 340 0200

Return Receipt Fee (Endorsement Required)  
 Restricted Delivery Fee (Endorsement Required)  
 Certified Fee  
 Postage \$  
 Postmark Here

Total P  
 Recipient  
 Mexico Energy Corp., fka  
 Miller Oil Co.  
 P. O. Box 10502

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mexco Energy Corp., fka  
Miller Oil Co.  
P. O. Box 10502  
Midland, Texas 79702

2. Article Number (Copy from service label)  
7099 3400 0016 5944 9011

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) **ALICE WOOD** B. Date of Delivery **10-17-92**

C. Signature **X Alice Wood**  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Return Receipt Fee (Endorsement Required)  
 Restricted Delivery Fee (Endorsement Required)  
 Certified Fee  
 Postage \$  
 Postmark Here

Total P  
 Recipient  
 Marvin C. and Wynell Gross  
 P. O. Box 358  
 Roswell, New Mexico 88202-0358

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

**SENDER: COMPLETE THIS SECTION**

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Marvin C. and Wynell Gross  
P. O. Box 358  
Roswell, New Mexico 88202-0358

2. Article Number (Copy from service label)  
7099 3400 0016 5944 9011

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature **X**  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

To: C. W. and Jackie Trainer  
 Rec: 500 W. Texas, Suite 710  
 Midland, Texas 79701

Postage \$  
 Certified Fee  
 Return Receipt Fee (Endorsement Required)  
 Restricted Delivery Fee (Endorsement Required)

Postmark Here

19 3400 0016 5944 8991

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:  
 C. W. and Jackie Trainer  
 P. O. Box 754  
 Midland, Texas 79702

2. Article Number (Copy from service label)  
 7099 3400 0016 5944 6737- Wapiti 31 st. Com. #1

PS Form 3811, July 1999 Domestic Return Receipt 102595-99-M-1789

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery  
 C. Signature X [Signature]  Agent  Addressee  
 D. Is delivery address different from item 1?  Yes  No  
 If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Total Postage \$  
 Certified Fee  
 Return Receipt Fee (Endorsement Required)  
 Restricted Delivery Fee (Endorsement Required)

Postmark Here

3400 0016 5944 9028

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:  
 Mika Petroleum LLC  
 P. O. Box 8154  
 Dallas, Texas 75205-0154

2. Article Number (Copy from service label)  
 7099 3400 0016 5944 8991 Wapiti 31-1

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery  
 C. Signature X [Signature]  Agent  Addressee  
 D. Is delivery address different from item 1?  Yes  No  
 If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Total Postage \$  
 Certified Fee  
 Return Receipt Fee (Endorsement Required)  
 Restricted Delivery Fee (Endorsement Required)

Postmark Here

3400 0016 5944 9028

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:  
 Kudo Petroleum LLC  
 P. O. Box 600490  
 Dallas, Texas 75360-0490

2. Article Number (Copy from service label)  
 7099 3400 0016 5944 9028 Wapiti 31-1

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery  
 C. Signature X [Signature]  Agent  Addressee  
 D. Is delivery address different from item 1?  Yes  No  
 If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

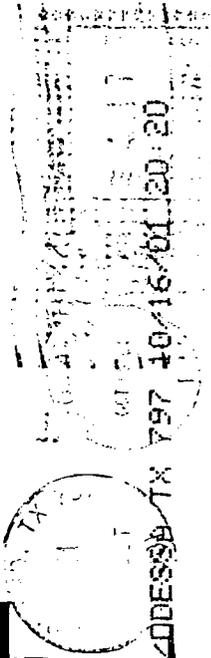
**CERTIFIED MAIL**



7099 3400 0016 5944 9059

Nearburg Exploration Company, L.L.C.

Exploration and Production  
3300 North "A" Street  
Building 2, Suite 120  
Midland, Texas 79705



P.O. Box 754 ← resent 10-19-01

C. W. and Jackie Trainer  
500 W. Texas, Suite 710  
Midland, Texas 79701



**NO MAIL RECEIPT**

Wapiti 31 St. Com #1  
All mail 31 St. Com #1

7099 3400 0016 5944 9059

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31 St. Com. #1

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement F)	

Postmark  
He è

Total Postage:

Recipient's Name: C. W. and Jackie Trainer  
 Street, Apt. No.: P. O. Box 754  
 City, State, ZIP+4: Midland, Texas 79702

located -  
sold their  
interest to  
HOG

7099 3400 0016 5944 9035

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

Postage	\$	Postmark Here
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		

To: Hamon Operating Co.  
RepublicBank Tower  
325 N. St. Paul, Suite 3900  
Dallas, Texas 75201-3902

PS Form 3800, February 2000

7099 3400 0016 5944 9042

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31-1

Postage	\$	Postmark Here
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		

To: Kaiser-Francis Oil Co.  
6733 S. Yale  
Tulsa, OK 74136

PS Form 3800, February 2000

**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

CC: Kathie  
Duane

October 3, 2001

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

Mewbourne Oil Company  
500 W. Texas, Suite 1020  
Midland, Texas 79701

ATTN: Mr. Larry Cunningham

RE: Wapiti Prospect "31" State Com. #1 Well  
1,650' FSL and 660' FEL  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico

Gentlemen:

Please find the attached AFE for the drilling and completion of the captioned well as a Morrow well to be drilled to an approximate depth of 13,700'. Such well shall be drilled on a proration unit covering the E/2 of Section 31, T-18-S, R-34-E. If Mewbourne elects to participate in this well, please sign the attached AFE and return to Nearburg at the letterhead address.

In the event Mewbourne elects not to participate in this well, Nearburg requests a farmout of Mewbourne's leasehold covering the N/2 SE/4 of Section 31, T-18-S, R-34-E under the following terms:

- 1) Nearburg to spud a Morrow test at a location of it's choice within the E/2 of Section 31, T-18-S, R-34-E, Lea County, New Mexico, within one hundred eighty (180) days of the effective date of the Farmout Agreement.
- 2) Upon completion of such initial well as a producer, Mewbourne shall assign 100% of it's leasehold rights, delivering a 75% NRI to Nearburg.
- 3) Mewbourne shall retain an overriding royalty interest equal to the difference between existing burdens and 75% with the option to convert such ORRI to a 25% working interest at payout of such well.
- 4) The Farmout Agreement shall contain a one hundred eighty (180) day continuous development provision.

Please review this AFE and if you elect to participate, Nearburg shall forward a Joint Operating Agreement to Mewbourne for your review; however, in the event you elect not to participate, please take the farmout request into serious consideration. If you have any questions or comments, please call me at (915) 686-8235.

Sincerely,



Curtis D. Smith  
 Senior Landman

CS/dw  
 attach.

cc: Bob Shelton

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> <li>Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</li> <li>Print your name and address on the reverse so that we can return the card to you.</li> <li>Attach this card to the back of the mailpiece, or on the front if space permits.</li> </ul>	A. Received by (Please Print Clearly)	B. Date of Delivery 10-5-01
1. Article Addressed to:   Mewbourne Oil Company 500 W. Texas, Suite 1020 Midland, Texas 79701	C. Signature  <input type="checkbox"/> Agent <input type="checkbox"/> Addressee D. Is delivery address different from item 1? If YES, enter delivery address below:	
2. Article Number (Copy from service label) 7099 3400 0017 1726 6024 - Wapiti 31 St.	3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	

PS Form 3811, July 1999      Domestic Return Receipt      Com. #1      102595-00-M-0952

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

Wapiti 31 St. Com. #1

Postage \$	Postmark Here
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	

Total \$

Recipient Street City, State	 Mewbourne Oil Company 500 W. Texas, Suite 1020 Midland, Texas 79701
------------------------------------	--

PS Form 3800, February 2000      See Reverse for Instructions

7099 3400 0017 1726 6024

**Nearburg Producing Company**

Exploration and Production  
Dallas, Texas

**AUTHORITY FOR EXPENDITURE**

LEASE: Wapiti 31 State Com WELL NUMBER: 1 PBTD: 13,700'  
 LOCATION: 1,650' FSL & 660' FEL, Section 31, T18S, R34E, Lea County NM  
 FIELD: Morrow EXPLORATORY, DEVELOPMENT, WORKOVER: E  
 DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer. Fracture stimulation is included.

DATE PREPARED: 10/2/01 EST. START DATE: 3/1/02 EST. COMPLETION DATE: 5/1/02  
 ACCOUNTING WELL NUMBER:  
 COMMUNICATIONS ACCOUNT NUMBER:

<b>INTANGIBLE COSTS:</b>	<b>CODE</b>	<b>TO CSG PT</b>	<b>CODE</b>	<b>COMPLETION</b>	<b>TOTAL WELL</b>
Drilling Footage 13,700 Ft @ 0.00 \$/Ft	1514.101	0	NA	0	0
Drilling Daywork 50 2 9,000 \$/day	1514.105	477,000	1515.105	19,080	496,080
Drilling Turnkey	1514.110	0	1515.110	0	0
Rig Mobilization and Demobilization	1514.115	37,100	1515.115	0	37,100
Road & Location Expense	1514.120	32,595	1515.125	3,180	35,775
Damages	1514.125	5,000	1515.125	0	5,000
Directional Drilling - Tools and Service	1514.130	0	1515.130	0	0
Drilling Fluids	1514.135	53,000	1515.132	0	53,000
Fuel, Power, and Water	1514.140	84,800	1515.140	0	84,800
Supplies - Bits	1514.145	56,710	1515.145	795	57,505
Supplies - Casing Equipment	1514.150	2,120	1515.150	7,420	9,540
Supplies - Liner Equipment	1514.155	0	1515.155	0	0
Supplies - Miscellaneous	1514.160	0	1515.160	0	0
Cement and Cmt. Services - Surface Csg	1514.185	12,720	NA	0	12,720
Cement and Cmt. Services - Int. Csg	1514.170	21,200	NA	0	21,200
Cement and Cmt. Services - Prod. Csg	NA	0	1515.172	21,200	21,200
Cement and Cmt. Services - Other	1514.175	0	1515.175	0	0
Rental - Drilling Tools and Equipment	1514.180	13,038	1515.180	0	13,038
Rental - Misc.	1514.185	40,439	1515.185	3,710	44,149
Testing - Drill Stem / Production	1514.195	4,770	1515.195	5,300	10,070
Open Hole Logging	1514.200	37,100	NA	0	37,100
Mudlogging Services	1514.210	21,200	NA	0	21,200
Special Services	1514.190	0	1515.190	0	0
Plug and Abandon	1514.215	15,000	1515.215	(15,000)	0
Pulling and/or Swabbing Unit	NA	0	1515.217	18,550	18,550
Reverse Equipment	NA	0	1515.219	5,300	5,300
Wireline Services	1514.205	0	1515.205	15,900	15,900
Stimulation	NA	0	1515.221	121,900	121,900
Pump / Vacuum Truck Services	1514.220	0	1515.220	5,944	5,944
Transportation	1514.225	9,540	1515.225	6,360	15,900
Tubular Goods - Inspection & Testing	1514.230	3,180	1515.230	5,300	8,480
Unclassified	1514.245	530	1515.245	0	530
Telephone and Radio Expense	1514.240	1,590	1515.240	636	2,226
Engineer / Geologist / Landman	1514.250	22,500	1515.250	2,500	25,000
Company Labor - Field Supervision	1514.255	27,560	1515.255	7,500	35,060
Contract Labor / Roustabout	1514.285	8,480	1515.285	11,130	19,610
Legal and Professional Service	1514.270	5,000	1515.270	0	5,000
Insurance	1514.275	11,306	1515.275	0	11,306
Overhead	1514.280	12,600	1515.280	3,500	16,100
<b>SUBTOTAL</b>		<b>1,016,078</b>		<b>250,205</b>	<b>1,266,284</b>
Contingencies (10%)		101,608		25,021	126,629
<b>ESTIMATED TOTAL INTANGIBLES</b>		<b>1,117,686</b>		<b>275,226</b>	<b>1,392,913</b>



**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 18, 2001

cc: Kathie  
Duane

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

**TO WORKING INTEREST OWNERS:**  
(See Distribution List)

**RE: Wapiti "31" State Com. #1 Well**  
1,650' FSL and 660' FEL  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico  
Wapiti Prospect

Gentlemen:

Please find the attached AFE for the drilling and completion of the captioned well as a Morrow well to be drilled to an approximate depth of 13,700'. Such well shall be drilled on a proration unit covering the E/2 of Section 31, T-18-S, R-34-E. If you elect to participate in this well, please sign the attached AFE and return to Nearburg at the letterhead address.

In the event you elect not to participate in this well, Nearburg requests a farmout of your leasehold covering the E/2 of Section 31, T-18-S, R-34-E under the following terms:

- 1) Nearburg to spud a Morrow test at a location of it's choice within the E/2 of Section 31, T-18-S, R-34-E, Lea County, New Mexico, within one hundred eighty (180) days of the effective date of the Farmout Agreement.
- 2) Upon completion of such initial well as a producer, you shall assign 100% of it's leasehold rights, delivering a 75% NRI to Nearburg.
- 3) You shall retain an overriding royalty interest equal to the difference between existing burdens and 75% with the option to convert such ORRI to a 25% working interest at payout of such well.
- 4) The Farmout Agreement shall contain a one hundred eighty (180) day continuous development provision.

Please review this AFE and if you elect to participate, Nearburg shall forward a Joint Operating Agreement to you for your review, however, in the event you elect not to participate, please take the farmout request into serious consideration. If you have any questions or comments, please call me at (915) 686-8235.

Sincerely,



**Curtis D. Smith**  
Senior Landman

**Wapiti "31" State Com. #1 Well  
1,650' FSL and 660' FEL  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico**

Mr. Brent Robertson  
Matador E&P Co.  
8340 Meadow Road, Suite 150  
Dallas, TX 75231

T. H. McElvain Oil & Gas Limited Partnership ✓  
McElvain Oil & Gas Properties, Inc., Gen. Ptr.  
P. O. Box 2148  
Santa Fe, NM 87504-2148

Josephine M. Withers /  
11578 Lost Tree Way  
North Palm Beach, FL 33408

Ralph C. McElvain, Jr. ✓  
5318 S. Cottonwood Club Circle  
Salt Lake City, Utah 84117

Ruth P. McElvain /  
P. O. Box 2148  
Santa Fe, NM 87504

James E. McElvain ✓  
P. O. Box 2148  
Santa Fe, NM 87504

Caryl M. Bradford /  
4005 Euclid Ave.  
Dallas, TX 75205

McElvain Oil Co. /  
14828 Bellbrook  
Addison, TX 75240

**Nearburg Producing Company**

Exploration and Production  
Dallas, Texas

**AUTHORITY FOR EXPENDITURE**

LEASE: Wapiti 31 State Com WELL NUMBER: 1 PBD: 13,700'  
LOCATION: 1,650' FSL & 660' FEL, Section 31, T18S, R34E, Lea County NM  
FIELD: Morrow EXPLORATORY, DEVELOPMENT, WORKOVER: E  
DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer. Fracture stimulation is included.

DATE PREPARED: 10/2/01 EST. START DATE: 3/1/02 EST. COMPLETION DATE: 5/1/02  
ACCOUNTING WELL NUMBER:  
COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 13,700 Ft @ 0.00 \$/Ft	1514121	0	NA	0	0
Drilling Daywork 50 2 9,000 \$/day	1514125	477,000	1515104	19,080	496,080
Drilling Turnkey	1514130	0	1515110	0	0
Rig Mobilization and Demobilization	1514135	37,100	1515115	0	37,100
Road & Location Expense	1514140	32,595	1515125	3,180	35,775
Damages	1514125	5,000	1515125	0	5,000
Directional Drilling - Tools and Service	1514130	0	1515130	0	0
Drilling Fluids	1514135	53,000	1515132	0	53,000
Fuel, Power, and Water	1514140	84,800	1515140	0	84,800
Supplies - Bits	1514145	56,710	1515145	795	57,505
Supplies - Casing Equipment	1514150	2,120	1515150	7,420	9,540
Supplies - Liner Equipment	1514155	0	1515155	0	0
Supplies - Miscellaneous	1514160	0	1515160	0	0
Drillment and Cmt. Services - Surface Csg	1514165	12,720	NA	0	12,720
Drillment and Cmt. Services - Int. Csg	1514170	21,200	NA	0	21,200
Drillment and Cmt. Services - Prod. Csg	NA	0	1515172	21,200	21,200
Drillment and Cmt. Services - Other	1514175	0	1515175	0	0
Drillment - Drilling Tools and Equipment	1514180	13,038	1515180	0	13,038
Drillment - Misc.	1514185	40,439	1515185	3,710	44,149
Drilling - Drill Stem / Production	1514195	4,770	1515195	5,300	10,070
Open Hole Logging	1514200	37,100	NA	0	37,100
Logging Services	1514210	21,200	NA	0	21,200
Special Services	1514190	0	1515190	0	0
Plug and Abandon	1514215	15,000	1515210	(15,000)	0
Drilling and/or Swabbing Unit	NA	0	1515217	18,550	18,550
Reverse Equipment	NA	0	1515218	5,300	5,300
Wellbore Services	1514220	0	1515220	15,900	15,900
Isolation	NA	0	1515227	121,900	121,900
Truck / Vacuum Truck Services	1514220	0	1515220	5,944	5,944
Transportation	1514225	9,540	1515225	6,360	15,900
Material Goods - Inspection & Testing	1514230	3,180	1515230	5,300	8,480
Unassisted	1514245	530	1515245	0	530
Telephone and Radio Expense	1514240	1,590	1515240	638	2,228
Engineer / Geologist / Landman	1514250	22,500	1515250	2,500	25,000
Company Labor - Field Supervision	1514255	27,560	1515255	7,500	35,060
Contract Labor / Roustabout	1514260	8,480	1515260	11,130	19,610
Engineering and Professional Service	1514270	5,000	1515270	0	5,000
Insurance	1514275	11,306	1515275	0	11,306
Leasehold	1514280	12,600	1515280	3,500	16,100
<b>TOTAL</b>		<b>1,016,078</b>		<b>250,205</b>	<b>1,266,284</b>
Agencies (10%)		101,608		25,021	126,629
<b>RELATED TOTAL INTANGIBLES</b>		<b>1,117,686</b>		<b>275,226</b>	<b>1,392,913</b>



**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
*(Domestic Mail Only; No Insurance Coverage Provided)*

Wapiti 31 St. Com. #1

Postage \$  
Certified Fee  
Return Receipt Fee (Endorsement Required)  
Restricted Delivery Fee (Endorsement Required)

Postmark Here

**Total Postage**  
Matador Petroleum Corporation  
8340 Meadow Road  
Suite 150, Pecan Creek  
Dallas, Texas 75231-3751

Recipient's Name  
Street, Apt. No.

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Matador Petroleum Corporation  
8340 Meadow Road  
Suite 150, Pecan Creek  
Dallas, Texas 75231-3751

2. Article Number (Copy from service label)  
7099 3400 0017 1726 6383

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-06

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery  
10/22/01

C. Signature  
X *Shaunta Rumbaugh*  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Wapiti 31 St. Com. #1

99 3400 0017 1726 5829

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
*(Domestic Mail Only; No Insurance Coverage Provided)*

Wapiti 31 S.C. #1

Postage \$  
Certified Fee  
Return Receipt Fee (Endorsement Required)  
Restricted Delivery Fee (Endorsement Required)

Postmark Here

T.H. McElvain Oil & Gas Limited Partnership  
McElvain Oil & Gas Properties, Inc., Gen. Pmt.  
P. O. Box 2148

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

T.H. McElvain O&G Ltd. Pmt.  
McElvain O&G Properties,  
P. O. Box 2148  
Santa Fe, NM 87504-2148

2. Article Number (Copy from service label)  
7099 3400 0017 1726 5829

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery  
LOIS REDDING 10-22-01

C. Signature  
X *Lois Redding*  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Wapiti 31 St. Com. #1

99 3400 0017 1726 6321

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
*(Domestic Mail Only; No Insurance Coverage Provided)*

Wapiti 31 St. Com. #1

Postage \$  
Certified Fee  
Return Receipt Fee (Endorsement Required)  
Restricted Delivery Fee (Endorsement Required)

Postmark Here

McElvain Oil Co.  
14828 Bellbrook  
Addison, TX 75240

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

McElvain Oil Co.  
14828 Bellbrook  
Addison, TX 75240

2. Article Number (Copy from service label)  
7099 3400 0017 1726 6321

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-17

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery  
10-22-01

C. Signature  
X *[Signature]*  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Wapiti 31 St. Com. #1

Total Postage  
 Recipients  
 Josephine M. Withers  
 11578 Lost Tree Way  
 North Palm Beach, FL 33408

Wapiti 31 St. Com. #1

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

**SENDER: COMPLETE THIS SECTION**

1. Complete items 1, 2, and 3. Also enter item 4. Best address for delivery is shown. 2. Post your return address on this receipt so that the post office can return the mail to you if it is undeliverable. 3. Attach this receipt to the mail. 4. If you are mailing this item to a business, please print the name and address of the business.

Item 1: 79 3400 0017  
 Item 2: 3400  
 Item 3: 0017  
 Item 4: 79 3400 0017

**COMPLETE THIS SECTION ON DELIVERY**

Please Print Clearly | B. Date of Delivery: 10/22/91

Agent  
 Addressee  
 Yes  
 No

Express Mail  
 Return Receipt for Merchandise  
 C.O.D.  
 Yes

Wapiti 31 St. Com. #1

Total Postage  
 Recipients  
 Ralph C. McElvain, Jr.  
 5318 S. Cottonwood Club Circle  
 Dallas, TX 75205

Wapiti 31 St. Com. #1

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

**SENDER: COMPLETE THIS SECTION**

1. Complete items 1, 2, and 3. Also enter item 4. Best address for delivery is shown. 2. Post your return address on this receipt so that the post office can return the mail to you if it is undeliverable. 3. Attach this receipt to the mail. 4. If you are mailing this item to a business, please print the name and address of the business.

Item 1: 1099 3400 0017  
 Item 2: 3400  
 Item 3: 0017  
 Item 4: 1099 3400 0017

**COMPLETE THIS SECTION ON DELIVERY**

Please Print Clearly | B. Date of Delivery

Agent  
 Addressee  
 Yes  
 No

Express Mail  
 Return Receipt for Merchandise  
 C.O.D.  
 Yes

Wapiti 31 St. Com. #1

Total Postage  
 Recipients  
 Caryl M. Bradford  
 4005 Euclid Ave  
 Dallas, TX 75205

Wapiti 31 St. Com. #1

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

**SENDER: COMPLETE THIS SECTION**

1. Complete items 1, 2, and 3. Also enter item 4. Best address for delivery is shown. 2. Post your return address on this receipt so that the post office can return the mail to you if it is undeliverable. 3. Attach this receipt to the mail. 4. If you are mailing this item to a business, please print the name and address of the business.

Item 1: 1019 3400 0017  
 Item 2: 3400  
 Item 3: 0017  
 Item 4: 1019 3400 0017

**COMPLETE THIS SECTION ON DELIVERY**

Please Print Clearly | B. Date of Delivery

Agent  
 Addressee  
 Yes  
 No

Express Mail  
 Return Receipt for Merchandise  
 C.O.D.  
 Yes

Wapiti 31 St. Com. #1

**SECTION ON DELIVERY**

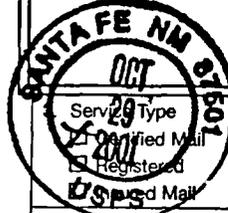
A. Received by (Please Print Clearly) LOIS REDDIN B. Date of Delivery

C. Signature X Lois Reddin  Agent  Address

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

4. Restricted Delivery? (Extra Fee)  Yes

Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.



**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

1. Article Addressed to:

James E. McElvain  
P. O. Box 2148  
Santa Fe, NM 87504

2. Article Number (Copy from service label)  
7099 3400 0017 1726 6345- Wapiti 31 St. Cor

PS Form 3811, July 1999 Domestic Return Receipt #1 102595-99-M-176

Postage \$

Certified Fee

Return Receipt Fee (Endorsement Required)

Restricted Delivery Fee (Endorsement Required)

Postmark Here

Recipient's Name: James E. McElvain  
P. O. Box 2148  
Santa Fe, NM 87504

City, State, ZIP+4

Wapiti 31 St. Cor. #1

**COMPLETE THIS SECTION ON DELIVERY**

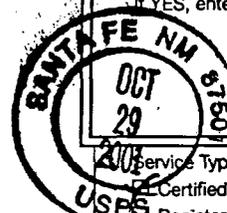
A. Received by (Please Print Clearly) LOIS REDDIN B. Date of Delivery

C. Signature X Lois Reddin  Agent  Address

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

4. Restricted Delivery? (Extra Fee)  Yes

Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.



**SENDER: COMPLETE THIS SECTION**

1. Article Addressed to:

Ruth P. McElvain  
P. O. Box 2148  
Santa Fe, NM 87504

2. Article Number (Copy from service label)  
7099 3400 0017 1726 6352- Wapiti 31 St

PS Form 3811, July 1999 Domestic Return Receipt Cor. #1 102595-99-M

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT**  
(Domestic Mail Only; No Insurance Coverage Provided)

Postage \$

Certified Fee

Return Receipt Fee (Endorsement Required)

Restricted Delivery Fee (Endorsement Required)

Postmark Here

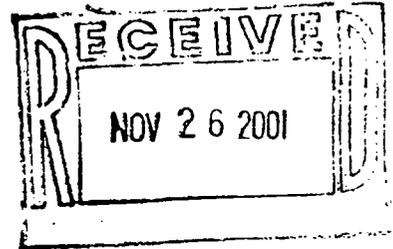
Recipient's Name: Ruth P. McElvain  
P. O. Box 2148  
Santa Fe, NM 87504

City, State, ZIP+4

Wapiti 31 St. Cor. #1

7099 3400 0017 1726 6352

*3 Copies Please*  
*1 - Cass*  
*1 - Tammie*  
*1 - New location*



November 16, 2001

Nearburg Exploration Company, LLC  
P.O. Box 823085  
Dallas, TX 75382-3085

Attn: Mr. Duke Rousch

Re: Wapiti "31" State Com. #1 Well Proposal  
Sec. 31, T18S-R34E  
Lea Co., NM

Dear Mr. Rousch:

Pursuant to our telephone conversation today, enclosed herewith is the Joint Operating Agreement dated January 27, 1975 covering Sections 13, 14, 23, 24, 25, 26, 35 and 36 of T18N-R33E and Sections 17, 18, 19, 20, 29, 30, 31 and 32 of T18N-R34E, Lea County, New Mexico.

If you need anything further, do not hesitate to contact us. My direct number is 918-491-4438.

Sincerely,

*Debbie Stout*  
Debbie Stout  
Land Assistant

Enc.

xc: Wayne Fields, Landman  
Jim Wakefield, Engineer

D85:\ltr\wapiti.joa.wpd

*11/26/01. Debbie at Kaiser  
Francis - no decision yet  
wants F10 offer.*

*Wayne Bello  
11/26/01 -  
Still working and  
Does not know the  
answer - will  
check to see how many  
he subject to  
participate in*

**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

December 21, 2001

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

Mika Petroleum LLC  
P. O. Box 8154  
Dallas, Texas 75205-0154

RE: Wapiti "31" State Com. #1 Well  
1,650' FSL and 660' FEL  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico  
Wapiti Prospect

Gentlemen:

Enclosed herewith, please find an application for compulsory pooling for the captioned well filed on behalf of Nearburg Exploration Company, L.L.C. ("NEC") by the law firm of Hollard & Hart and Campbell & Carr. The hearing for this well is scheduled to be heard before a Division Examiner on January 10, 2002. Should you wish to participate in the proposed well, we ask that you please execute both copies of the AFE, which was previously provided and return one copy to the attention of the undersigned.

Should you wish not to participate, we ask that you consider granting NEC a farmout on the terms as set forth in our letter dated October 16, 2001.

If you have any questions or comments, please call me at (915) 686-8235.

Sincerely,



Duke Roush  
Senior Landman

DR/dw  
encl.

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

  
**Mika Petroleum LLC**  
**P. O. Box 8154**  
**Dallas, Texas 75205-0154**

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) **Francis Strickland** B. Date of Delivery **DEC 26 2001**

C. Signature **X** *[Handwritten Signature]*  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
If YES, enter delivery address below:

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number **7099 3400 0016 5944 7369**  
 (Transfer from service label) **Wapiti 31 St. Com. #1**

**U.S. Postal Service**  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

7099 3400 0016 5944 7369

**Wapiti 31 St. Com. #1**

Postage	\$	
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		

Postmark Here

Total Postage & Fees 

Recipient's Name **Mika Petroleum LLC**  
 Street, Apt. No., or **P. O. Box 8154**  
 City, State, ZIP+4 **Dallas, TX 75205-0154**

INTEROFFICE MEMORANDUM

---

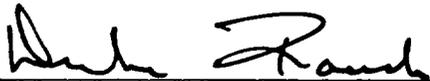
To: Bob Shelton

From: Duke Roush

Date: January 7, 2002

Re: Kudo Petroleum L.L.C.  
Mika Petroleum L.L.C.  
Wapiti 31 Fed. Com. #1  
Lea County, New Mexico  
Elk 01 Prospect

I was finally able to locate the number for the captioned company and spoke with Mr. Frank Stroube, regarding their election to participate in the Wapiti 31 Fed. Com. #1 on January 3<sup>rd</sup> and 4<sup>th</sup>, 2002. He said they were participating in two deep wells in Oklahoma and were presently cash poor. I offered to farm in their interest on a 75/25 basis. He said he would talk to his partner and call us back. I will attempt to follow up on the 8<sup>th</sup>, if I have not heard from them.



\_\_\_\_\_  
Duke Roush

DR/dw

**UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT**

SUBMIT IN TRIPLICATE\*  
(Other instructions on  
reverse side)

FORM APPROVED  
OMB NO. 1004-0136  
Expires: February 28, 1995

**APPLICATION FOR PERMIT TO DRILL OR DEEPEN**

5. LEASE DESIGNATION AND SERIAL NO.  
NM 92780

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME, WELL NO

Wapiti 31 Federal Com #1

9. API WELL NO.

10. FIELD AND POOL OR WILDCAT

La Rica Morrow; West

11. SEC. T., R., M., OR BLK.  
AND SURVEY OR AREA

Section 31-18S-34E

12. COUNTY OR PARISH

Lea

13. STATE

NM

1a. TYPE OF WORK

DRILL

DEEPEN

b. TYPE OF WELL

OIL WELL

GAS WELL

OTHER

SINGLE ZONE

MULTIPLE ZONE

2. NAME OF OPERATOR

Nearburg Producing Company

3. ADDRESS AND TELEPHONE NO

3300 North "A" Street, Bldg 2, Ste120, Midland, TX 79705 (915) 686-8235

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)\*

At surface Unit I, 1650' FSL and 660' FEL  
At proposed prod. zone

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*

4 miles southwest of Buckeye, New Mexico

15. DISTANCE FROM PROPOSED\*

LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT (Also to nearest drilg. unit line, if any)

660'

16. NO. OF ACRES IN LEASE

80'

17. NO. OF ACRES ASSIGNED TO THIS WELL

320'

18. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.

13,700'

20. ROTARY OR CABLE TOOLS

Rotary

21. ELEVATIONS (Show whether DF, RT, GR, etc.)

3957' GR

22. APPROX. DATE WORK WILL START\*

02/01/2002

23. PROPOSED CASING AND CEMENTING PROGRAM

SIZE OF HOLE	GRADE, SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
17-1/2"	13-3/8" J55	48#	350'	300 sx cmt, circ to surface
11"	8-5/8" J55	32#	5200'	1800 sx cmt, circ to surface
7-7/8"	5-1/2" J55,N80	17# & 20#	13,700'	925 sx cmt

Propose to drill the well to sufficient depth to evaluate the Morrow formation. After reaching TD, logs will be run and casing set if the evaluation is positive. Perforate, test and stimulate as necessary to establish production.

Acreege dedication 320; E/2 of Section 31

IN ABOVE SPACE DESCRIBE PROGRAM: If proposal is to deepen, give data on present productive zone and proposed new productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depths. Give blowout preventer program, if any.

24. SIGNED Kim Stewart TITLE Regulatory Analyst DATE 01/03/2002

(This space for Federal or State office use)

PERMIT NO \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon. CONDITIONS OF APPROVAL, IF ANY

APPROVED BY \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_

\*See Instructions On Reverse Side

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

**STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS**

Nearburg Producing Company  
3300 North "A" Street, Building 2, Suite 120  
Midland, Texas 77905

The undersigned accepts all applicable terms, conditions, stipulations and restrictions covering operations conducted on the leased land or portion thereof, as described below:

Lease No: NM 92780

Legal Description of Land: Unit I, 1650' FSL & 660' FEL  
Section 31, T18S, R34E  
Lea County, New Mexico

Formation(s) (if applicable): Morrow

Bond Coverage: \$25,000 statewide bond of Nearburg Producing Company

BLM Bond File No: NM1307

Date

1/2/2

  
\_\_\_\_\_  
H. R. Willis  
Drilling Superintendent

**ATTACHMENT TO FORM 3160-3  
WAPITI 31 FEDERAL COM #1  
SECTION 31, T18S, R34E  
LEA COUNTY, NEW MEXICO**

**DRILLING PROGRAM**

**1. GEOLOGIC NAME OF SURFACE FORMATION**

Red Bed

**2. ESTIMATED TOPS OF IMPORTANT GEOLOGIC MARKERS**

Rustler	1650'	Wolfcamp	10,650'
B/Salt	3050'	Strawn	12,220'
Delaware	5750'	Atoka	12,510'
Bone Spring	7750'	Morrow	12,850'
T/1 <sup>st</sup> Bone Sp	9000'	TD	13,700'

**3. ESTIMATED DEPTHS OF ANTICIPATED FRESH WATER, OIL, OR GAS**

Bone Spring	Oil	9600'
Morrow	Gas	13,400'

**4. CASING AND CEMENTING PROGRAM**

<u>Casing Size</u>	<u>From</u> <u>To</u>	<u>Weight</u>	<u>Grade</u>	<u>Joint</u>
13-3/8"	0' - 350'	48#	J55	STC
8-5/8"	0' - 5,200'	32#	J55	STC
5-1/2"	5,200' - 13,700'	17# & 20#	J55,N80	LTC&BTC

Equivalent or adequate grades and weights of casing may be substituted at time casing is run, depending on availability.

We plan to drill a 17-1/2" hole to equal 350'. 13-3/8" casing will be cemented with 300 sxs Class "C" or volume necessary to bring cement back to surface.

11" hole will be drilled to 5,200' and 8-5/8" casing will be cemented with 1,800 sxs Class "C" or volume necessary to bring cement back to surface.

7-7/8" hole will be drilled to 13,700' and 5-1/2" production casing will be cemented with approximately 925 sxs of Class "H" cement covering productive zones.

5. MINIMUM SPECIFICATIONS FOR PRESSURE CONTROL

The BOP stack will consist of a 5,000 psi working pressure, dual ram type preventer and annular.

A BOP sketch is attached.

6. TYPES AND CHARACTERISTICS OF THE PROPOSED MUD SYSTEM

Spud and drill to 350' with fresh water mud for surface string. The intermediate section will be drilled with 10 ppg Brine water mud to 5,200'. Intermediate casing will be run at this depth. The production section from 5,200' to 13,700' will be 9.2 – 9.6 ppg cut Brine system with mud weight sufficient to control formation pressures.

7. AUXILIARY WELL CONTROL AND MONITORING EQUIPMENT

None required.

8. LOGGING, TESTING, AND CORING PROGRAM

DLL/CNL/LDT/CAL/GR logging is planned. Drill stem tests, cores and sidewall cores are possible.

9. ABNORMAL CONDITIONS, PRESSURES, TEMPERATURES & POTENTIAL HAZARDS

None anticipated.

BHP expected to be 3,500 psi.

10. ANTICIPATED STARTING DATE:

Is planned that operations will commence on February 1, 2002 with drilling and completion operation lasting about 45 day.

**SURFACE USE AND OPERATIONS PLAN FOR**  
**DRILLING, COMPLETION, AND PRODUCING**

**NEARBURG PRODUCING COMPANY**  
**WAPITI 31 FEDERAL COM #1**  
**SECTION 31-T18S-R34E**  
**LEA COUNTY, NEW MEXICO**

**LOCATED**

6 miles Southwest of Buckeye, New Mexico

**OIL & GAS LEASE**

NM 92780

**RECORD LESSEE**

Mewbourne Oil company

**BOND COVERAGE**

\$25,000 statewide bond of Nearburg Producing Company

**ACRES IN LEASE**

320.00 acres

**GRAZING LEASE**

Kenneth Smith Inc.

**POOL**

La Rica Morrow; West (79830)

**EXHIBITS**

- A. Area Road Map
- B. Drilling Rig Layout
- C. Vicinity Oil & Gas Map
- D. Topographic & Location Verification Map
- E. Well Location & Acreage Dedication Map

This well will be drilled to a depth of approximately 13,700'.

1. EXISTING ROADS

- A. Exhibit A is a portion of a section map showing the location of the proposed well as staked.
- B. Exhibit C is a plat showing existing roads in the vicinity of the proposed well site.

2. ACCESS ROADS

A. Length and Width

The access road will be built and is shown on Exhibit D.

B. Surface Material

Existing.

C. Maximum Grade

Less than five percent

D. Turnouts

None necessary.

E. Drainage Design

Existing.

F. Culverts

None necessary.

G. Gates and Cattle Guards

None needed.

3. LOCATION OF EXISTING WELLS

Existing wells in the immediate area are shown in Exhibit C.

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES

Necessary production facilities for this well will be located on the well pad.

5. LOCATION AND TYPE OF WATER SUPPLY

It is not contemplated that a water well will be drilled. Water necessary for drilling will be purchased and hauled to the site over existing roads shown on Exhibit D.

6. METHODS OF HANDLING WASTE DISPOSAL

- A. Drilling fluids will be allowed to evaporate in the drilling pits until the pits are dry.
- B. Water produced during tests will be disposed of in the drilling pits.
- C. Oil produced during tests will be stored in test tanks.
- D. Trash will be contained in a trash trailer and removed from well site.
- E. All trash and debris will be removed from the well site within 30 days after finishing drilling and/or completion operations.

7. ANCILLARY FACILITIES

None required.

8. WELL SITE LAYOUT

Exhibit B shows the relative location and dimensions of the well pad, mud pits, reserve pit, and trash pit, and the location of major rig components.

9. PLANS FOR RESTORATION OF THE SURFACE

- A. After completion of drilling and/or completion operations, all equipment and other material not needed for operations will be removed. The well site will be cleaned of all trash and junk to leave the site in an as aesthetically pleasing condition as possible.
- B. After abandonment, all equipment, trash, and junk will be removed and the site will be clean.

10. OTHER INFORMATION

A. Topography

The land surface at the well site is rolling native grass with a regional slope being to the east.

B. Soil

Topsoil at the well site is sandy soil.

C. Flora and Fauna

The location is in an area sparsely covered with mesquite and range grasses.

D. Ponds and Streams

There are no rivers, lakes, ponds, or streams in the area.

E. Residences and Other Structures

There are no residences within a mile of the proposed well site.

F. Archaeological, Historical, and Cultural Sites

None observed on this area.

G. Land Use

Grazing

H. Surface Ownership

Bureau of Land Management

11. OPERATOR'S REPRESENTATIVE

H. R. Willis  
3300 North "A" Street, Bldg 2, Suite 120  
Midland, Texas 79705  
Office: (915) 686-8235  
Home: (915) 697-2484

12. CERTIFICATION

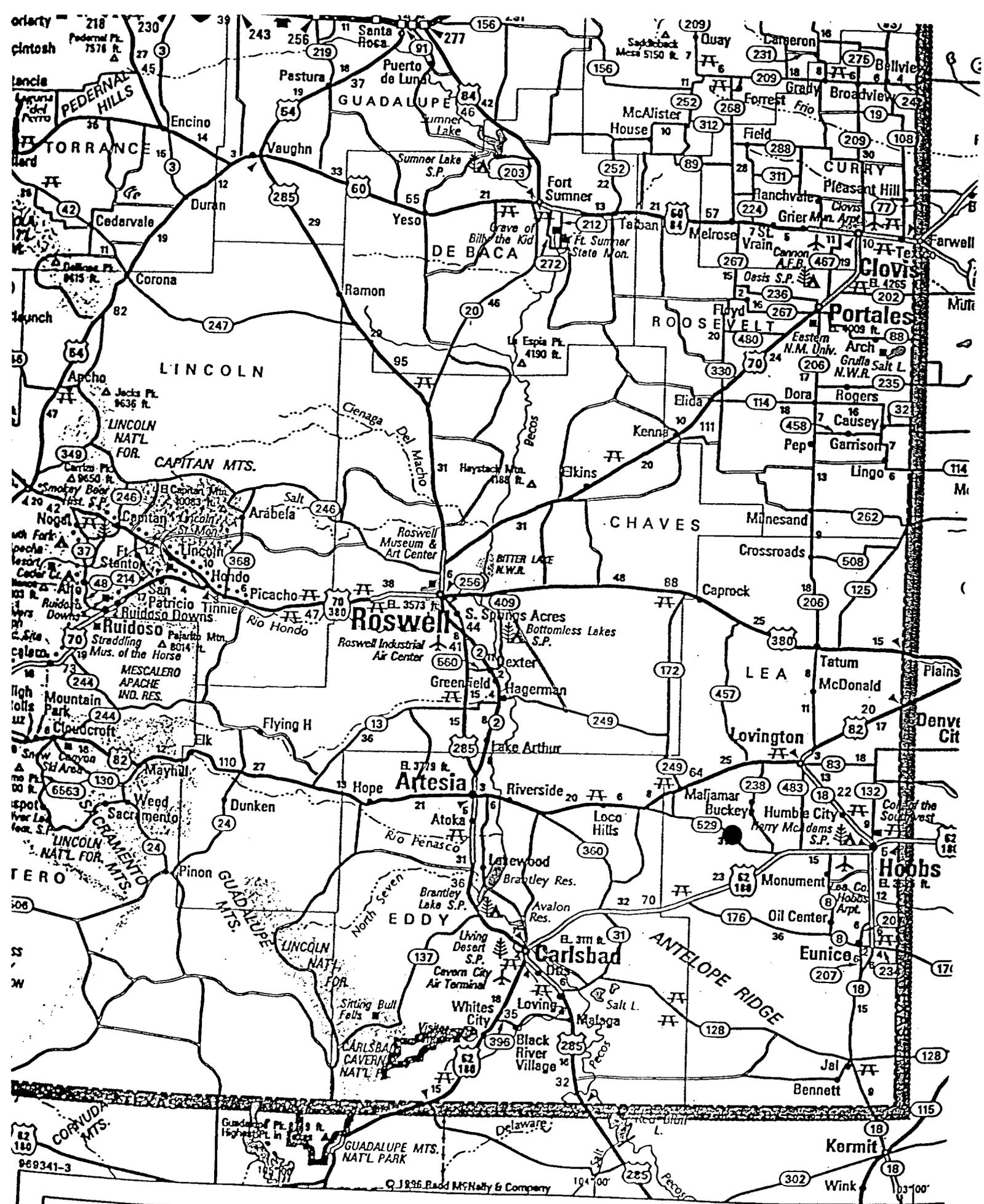
I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in this plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by Nearburg Producing Company and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved.

Date

1/2/2

H. R. Willis

Drilling Superintendent



969341-3

© 1966 Rand McNally & Company

104 100'

103 100'

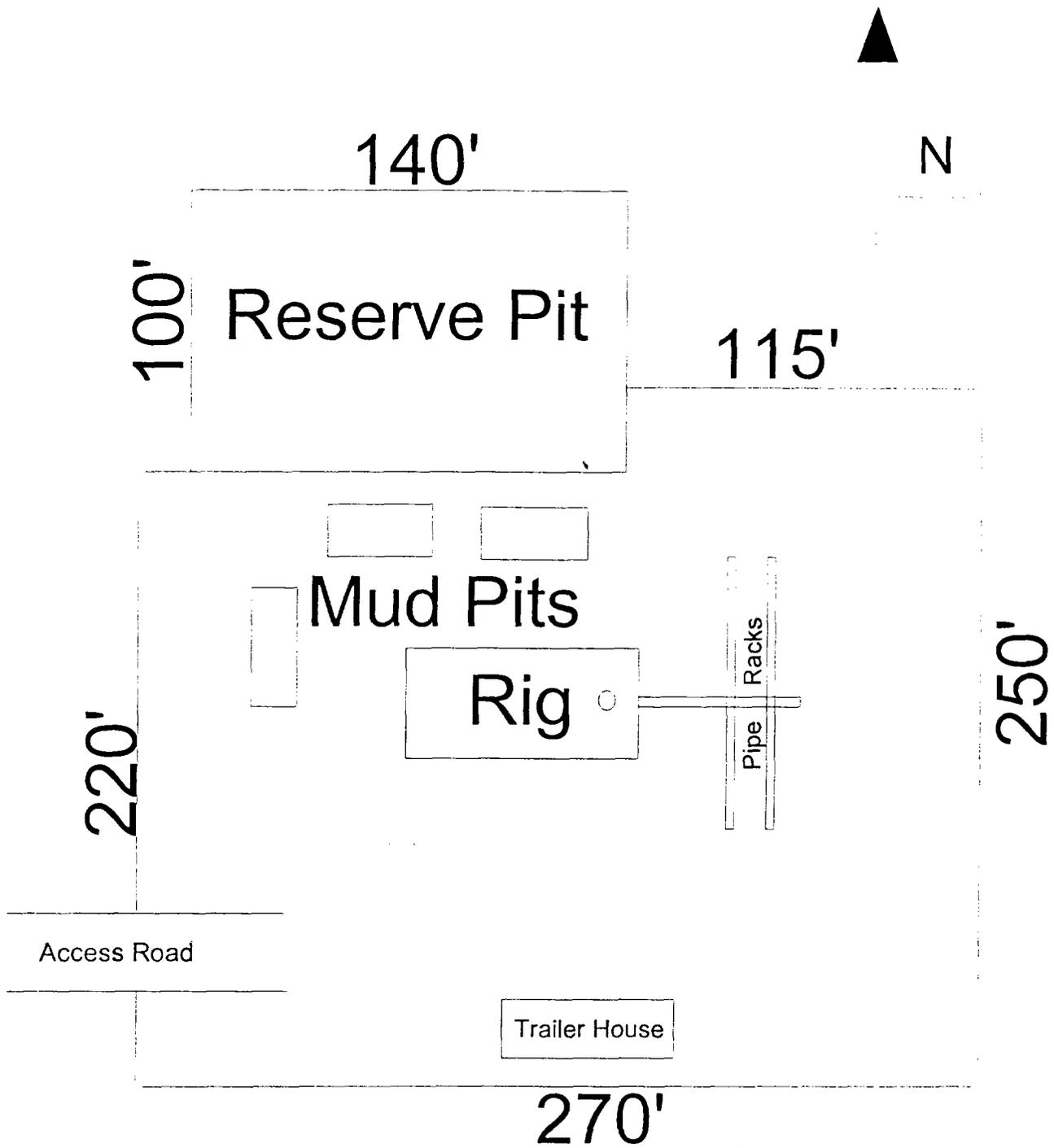
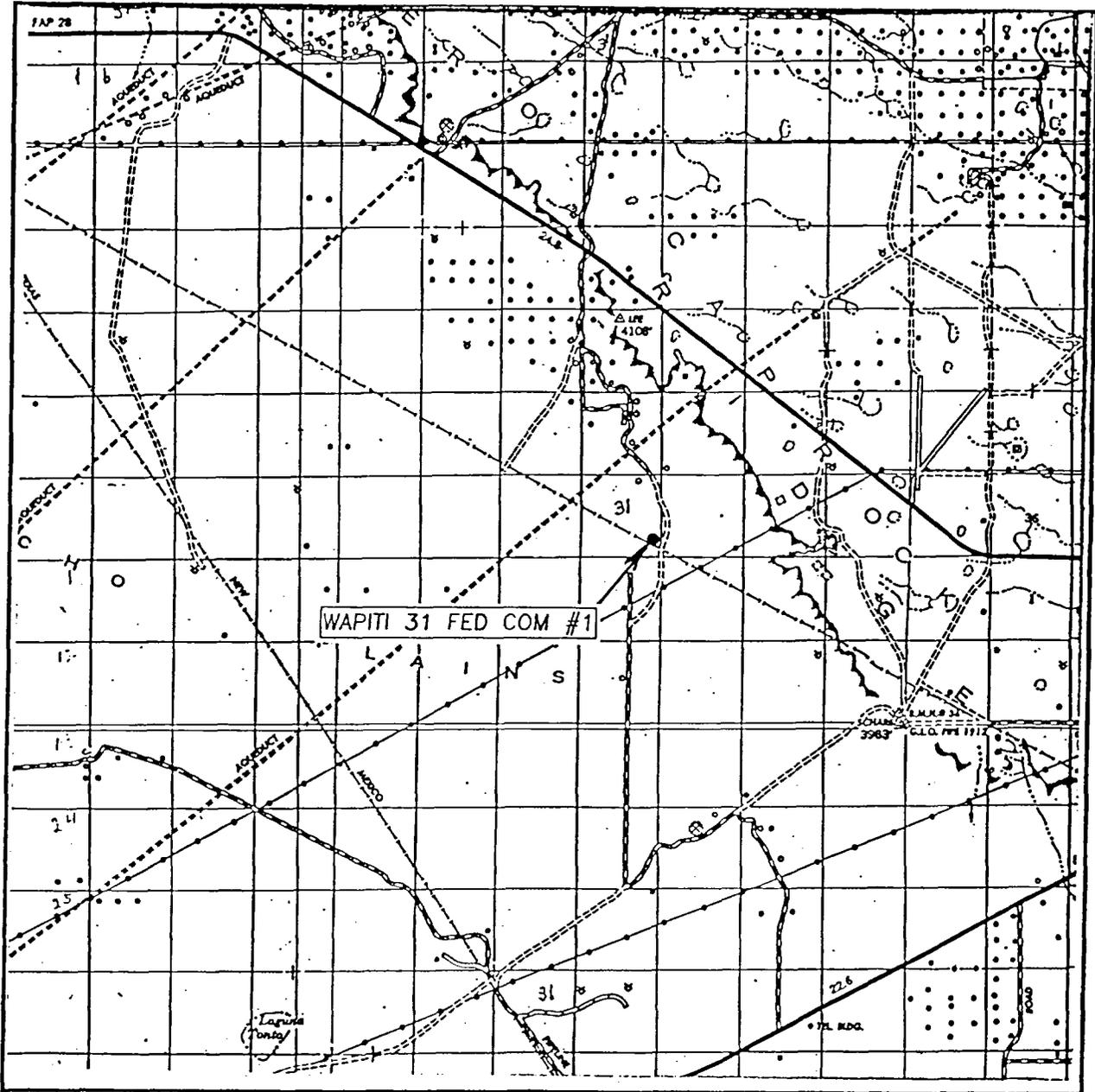


EXHIBIT B  
 DRILLING RIG LAYOUT  
 NEARBURG PRODUCING COMPANY  
 Wapiti 31 Federal Com #1  
 SCALE 1" = 50'

# VICINITY MAP



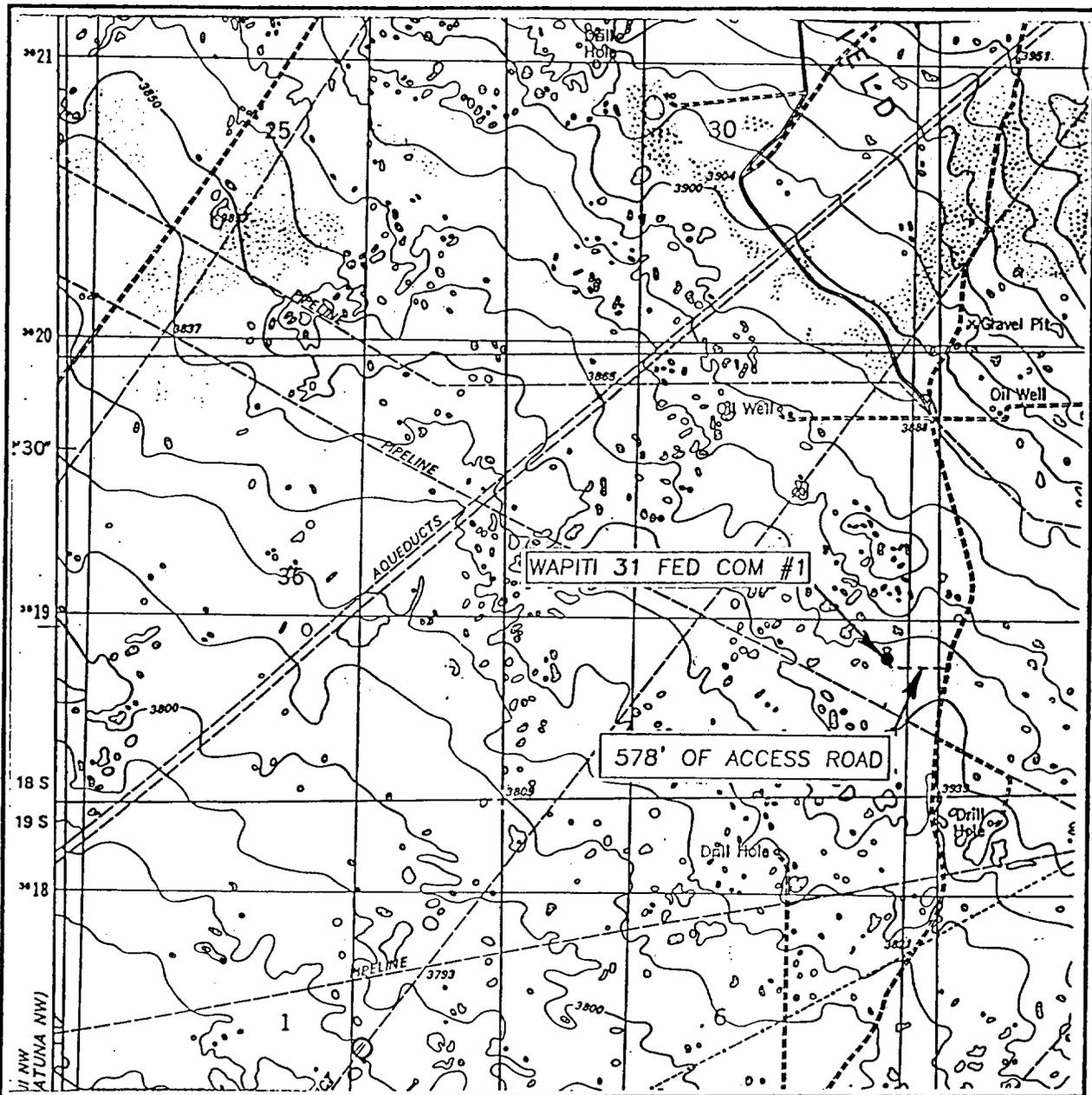
SCALE: 1" = 2 MILES

SEC. 31 TWP. 18-S RGE. 34-E  
 SURVEY N.M.P.M.  
 COUNTY LEA  
 DESCRIPTION 1650' FSL & 660' FEL  
 ELEVATION 3957'

OPERATOR NEARBURG PRODUCING COMPANY  
 LEASE WAPITI 31 FEDERAL COM

JOHN WEST SURVEYING  
 HOBBS, NEW MEXICO  
 (505) 393-3117

# LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL: 10'

IRONHOUSE WELL, N.M.

SEC. 31 TWP. 18-S RGE. 34-E

SURVEY \_\_\_\_\_ N.M.P.M. \_\_\_\_\_

COUNTY \_\_\_\_\_ LEA \_\_\_\_\_

DESCRIPTION 1650' FSL & 660' FEL

ELEVATION 3957'

OPERATOR NEARBURG PRODUCING COMPANY

LEASE WAPITI 31 FEDERAL COM

U.S.G.S. TOPOGRAPHIC MAP

IRONHOUSE WELL, N.M.

JOHN WEST SURVEYING  
HOBBS, NEW MEXICO

(505) 393-3117

State of New Mexico

Energy, Minerals and Natural Resources Department

DISTRICT I  
P.O. Box 1980, Hobbs, NM 88241-1980

DISTRICT II  
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III  
1000 Rio Brazos Rd., Artesia, NM 87410

DISTRICT IV  
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

OIL CONSERVATION DIVISION

P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

Form C-102  
Revised February 10, 1994  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code 79830	Pool Name La Rica Morrow; West
Property Code	Property Name WAPITI 31 FEDERAL COM.	Well Number 1
OGRID No. 015742	Operator Name NEARBURG PRODUCING CO.	Elevation 3957'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
1	31	18-S	34-E		1650	SOUTH	660	EAST	LEA

Bottom Hole Location If Different From Surface

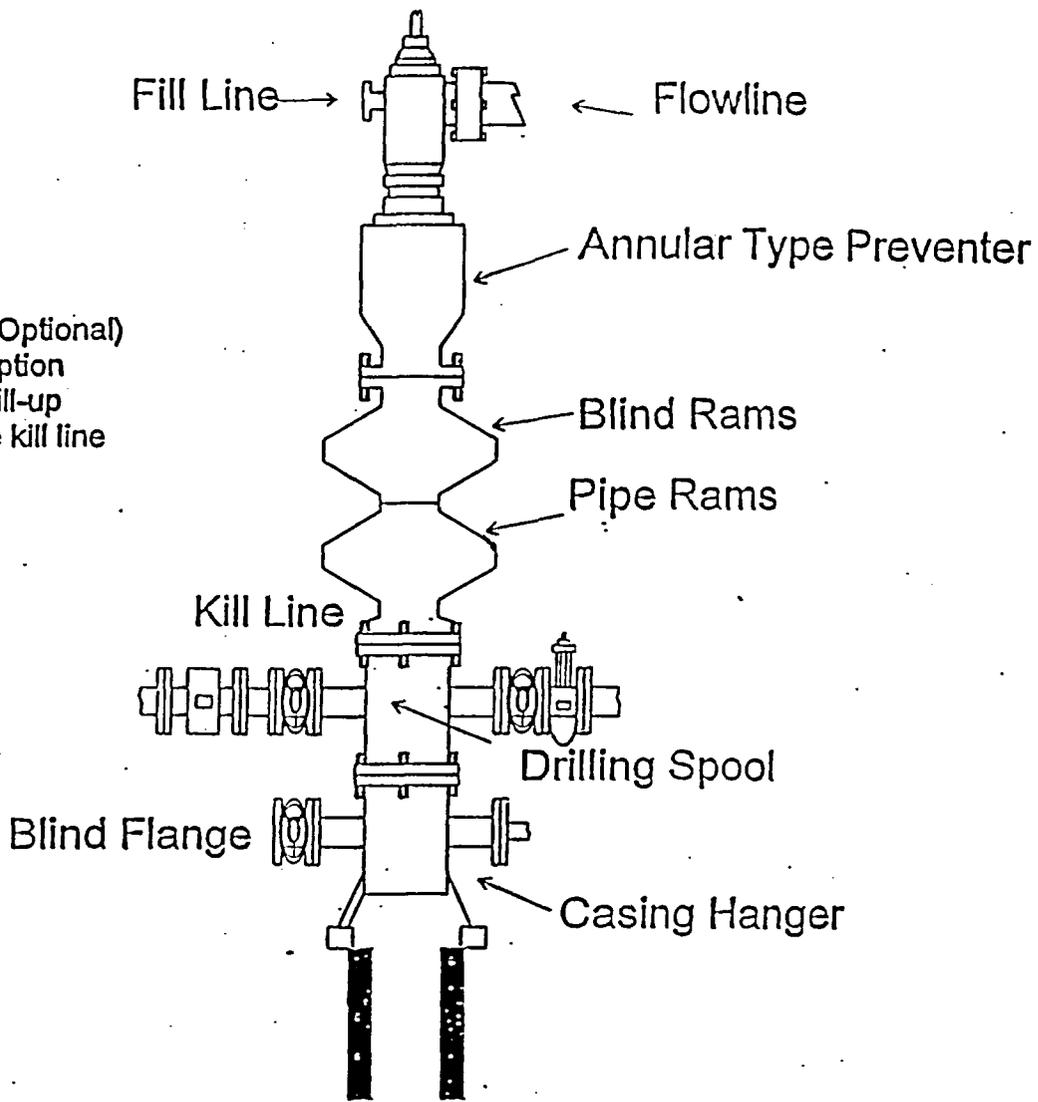
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres 320	Joint or Infill	Consolidation Code	Order No.
------------------------	-----------------	--------------------	-----------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

<p>LOT 1</p> <p>37.91 AC</p> <p>LOT 2</p> <p>37.97 AC</p> <p>LOT 3</p> <p>38.03 AC</p> <p>LOT 4</p> <p>38.09 AC</p>	<p>3959.5'</p> <p>3952.9'</p>		<p>3956.1'</p> <p>3954.7'</p>		<p>1650'</p> <p>660'</p>	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Kim Stewart</i></p> <p>Signature</p> <p>Kim Stewart</p> <p>Printed Name</p> <p>Regulatory Analyst</p> <p>Title</p> <p>January 2, 2001</p> <p>Date</p>
	<p>3959.5'</p> <p>3952.9'</p>		<p>3956.1'</p> <p>3954.7'</p>			<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>DECEMBER 18, 2001</p> <p>Date Surveyed</p> <p>AWB</p>
	<p>3959.5'</p> <p>3952.9'</p>		<p>3956.1'</p> <p>3954.7'</p>			<p>Signature of Professional Surveyor</p> <p><i>Ronald J. Edson</i></p> <p>Professional Surveyor</p> <p>12/19/01</p> <p>04 11 313</p>
	<p>3959.5'</p> <p>3952.9'</p>		<p>3956.1'</p> <p>3954.7'</p>			<p>Certificate No. RONALD J. EDSON 3239</p> <p>GARY EDSON 12841</p>

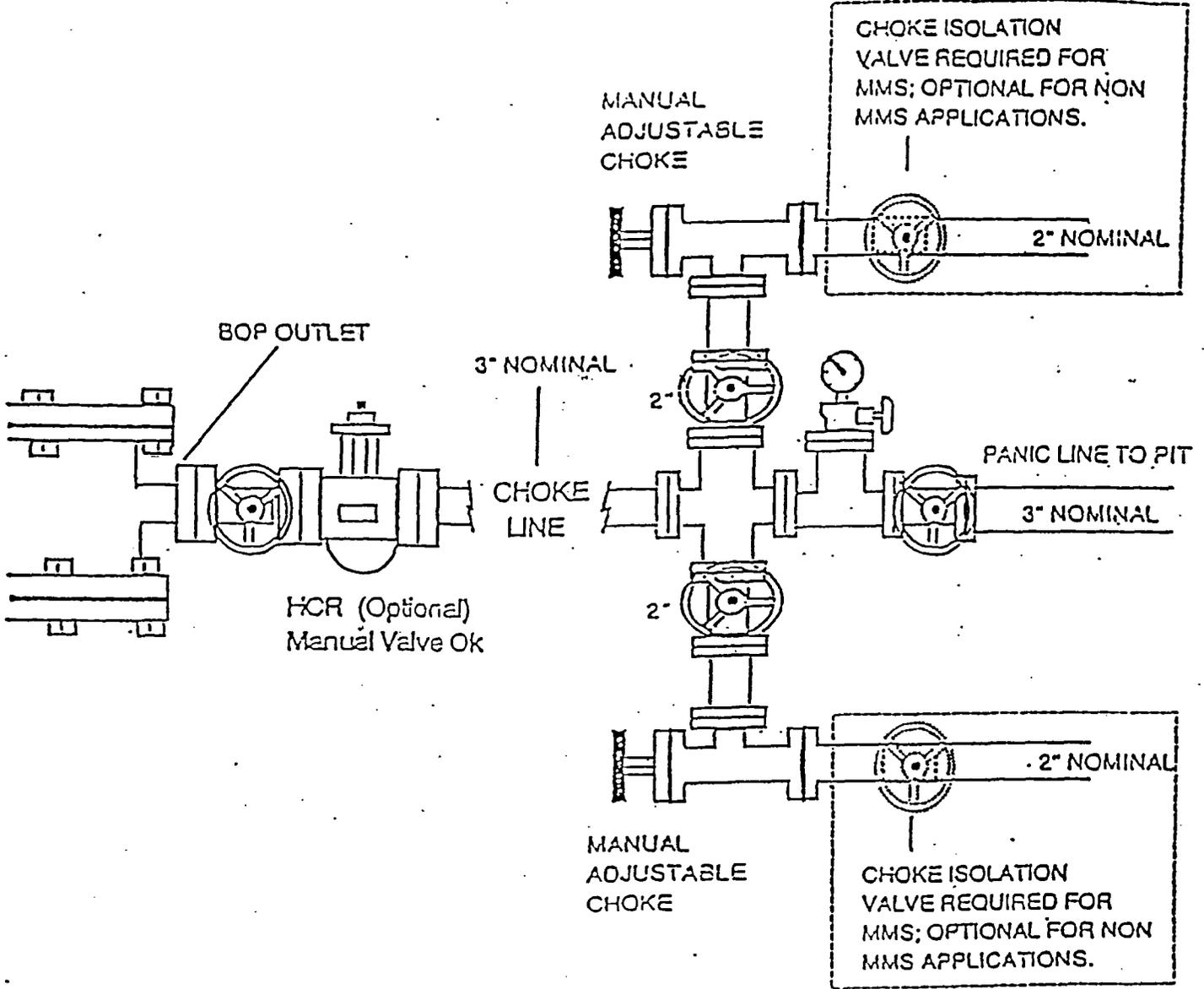
# BOPE SCHEMATIC



Rotating Head (Optional)  
Drilling Nipple option  
must include a fill-up  
line. Do not use kill line  
for fill up.

1500 Series

NEARBURG PRODUCING COMPANY  
CHOKE MANIFOLD  
5M SERVICE



**HYDROGEN SULFIDE DRILLING OPERATIONS PLANS  
NEARBURG PRODUCING COMPANY  
WAPITI 31 FEDERAL COM #1**

**1. HYDROGEN SULFIDE TRAINING**

- A. All regularly assigned personnel, contracted or employed by Nearburg Producing Company, will receive training from a qualified instructor in the following areas prior to commencing drilling potential hydrogen sulfide bearing formations in this well:
1. The hazards and characteristics of hydrogen sulfide (H<sub>2</sub>S).
  2. The proper use and maintenance of personal protective equipment and life support systems.
  3. The proper use of H<sub>2</sub>S detectors, alarms, warning systems, briefing areas, evacuation procedures and prevailing winds.
  4. The proper techniques for first aid and rescue procedures.
- B. In addition, supervisory personnel will be trained in the following areas:
1. The effects of H<sub>2</sub>S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
  2. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
  3. The contents and requirements of the H<sub>2</sub>S Drilling Operations Plan.
- C. There will be an initial training session just prior to encountering a known or probable H<sub>2</sub>S zone (within 3 days or 500 feet) and weekly H<sub>2</sub>S and well control drills for all personnel in each crew. The initial training session shall include a review of the site specific H<sub>2</sub>S Drilling Operations Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

**HYDROGEN SULFIDE DRILLING OPERATIONS PLANS**  
**PAGE 2**

**2. H2S SAFETY EQUIPMENT AND SYSTEMS**

Note: All H2S safety equipment and systems will be installed, tested and operational when drilling reaches a depth of 500 feet above, or three days prior to penetrating the first zone containing or reasonably expected to contain H2S.

**A. Well Control Equipment:**

1. Flare line with continuous pilot.
2. Choke manifold with a minimum of one remote choke.
3. Blind rams and pipe rams to accommodate all sizes with properly sized closing unit.
4. Auxiliary equipment to include: annular preventer, mud-gas separator, rotating head and flare gun with flares as needed.

**B. Protective Equipment for Essential Personnel:**

Mark II Surviveair 30-minute units located in the dog house and at briefing areas, as indicated on well site diagram.

**C. H2S Detection and Monitoring Equipment:**

1. Two portable H2S monitors positioned and location for best coverage and response. These units have warning lights and audible sirens when H2S levels of 20 ppm are reached.
2. One portable SO2 monitor positioned near flare line.

**D. Visual Warning systems:**

1. Wind direction indicators as shown on well site diagram.
2. Caution/Danger signs shall be posted on roads providing direct access to location. Signs will be painted a high visibility yellow with black lettering of sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used when appropriate. See example attached.

## HYDROGEN SULFIDE DRILLING OPERATIONS PLANS

### PAGE 3

#### E. Mud Program

1. The Mud Program has been designed to minimize the volume of H<sub>2</sub>S circulated to the surface. Proper mud weights, safe drilling practices and the use of H<sub>2</sub>S scavengers will minimize hazards when penetrating H<sub>2</sub>S bearing zones.
2. A mud-gas separator will be utilized as needed.

#### F. Metallurgy

All drill strings, casing, tubing, wellhead, blowout preventers, drilling spool, kill lines, choke manifold and line and valves shall be suitable for H<sub>2</sub>S service.

#### G. Communication

1. Cellular telephone communications in company vehicles and mud logging trailer.
2. Land line (telephone) communications at area office.

#### H. Well Testing

Drill stem testing will be performed with a minimum number of personnel in the immediate vicinity, which are necessary to safely and adequately conduct the test. The drill stem testing in an H<sub>2</sub>S environment will be conducted during the daylight hours.

## **WARNING**

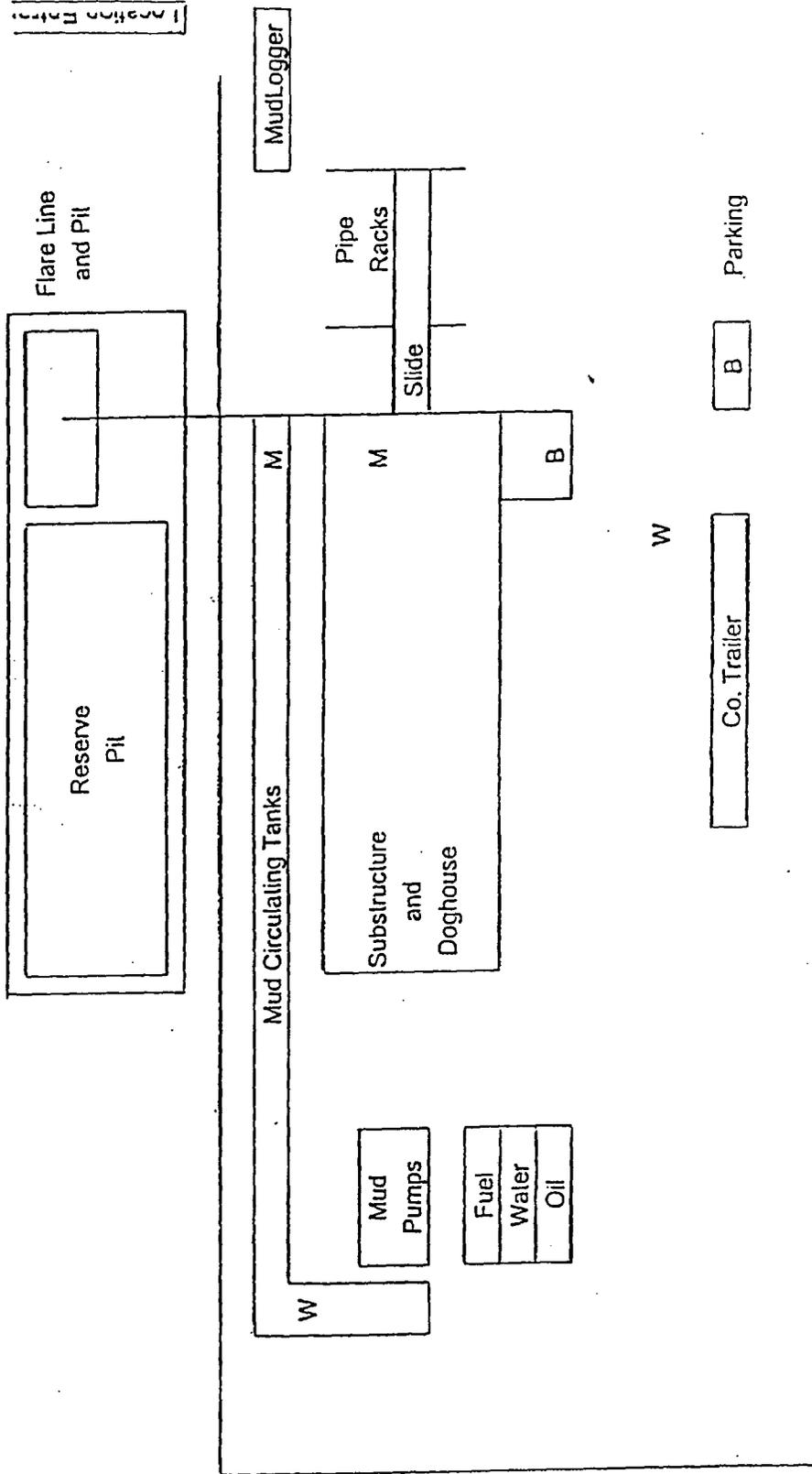
**YOU ARE ENTERING A H2S AREA  
AUTHORIZED PERSONNEL ONLY**

1. BEARDS OR CONTACT LENSES NOT ALLOWED
2. HARD HATS REQUIRED
3. SMOKING IN DESIGNATED AREAS ONLY
4. BE WIND CONSCIOUS AT ALL TIMES
5. CHECK WITH NEARBURG SUPERINTENDENT AT MAIN OFFICE

**NEARBURG PRODUCING COMPANY**

**(915) 686-8235**

NEARBURG PRODUCING COMPANY  
 HYDROGEN SULFIDE DRILLING OPERATIONS LOCATION PLAN



M - H2S Monitors with alarms at bell nipple and shale shaker

W - Wind Direction Indicators

B - Safe Briefing areas with caution signs and protective breathing equipment.  
 Minimum 150' from wellhead.

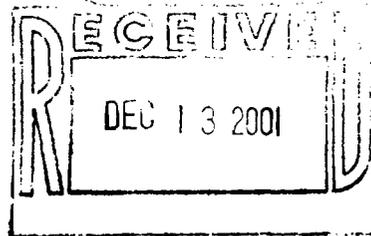
Prevailing Wind Directions: Summer - South/Southwest  
 Winter - North/Northwest

**HOG PARTNERSHIP LP**  
5950 Cedar Springs Road, LB 242  
Dallas, Texas 75235-6803  
214-357-0333

FAX 214-357-9358

December 11, 2001

Mr. Duke Roush  
Senior Landman  
Nearburg Exploration Company, L.L.C.  
3300 North "A" Street, Bldg. 2, Suite 120  
Midland, Texas 79705



Re: Wapiti "31" State Com. #1  
Section 31, T-18-S, R-34-E  
Lea County, New Mexico

Dear Mr. Roush:

Please be advised that effective August 1, 2001, **Hamon Operating Company** sold and conveyed all of their right, title and interest in and to the above referenced acreage to **HOG Partnership LP**. Attached is a copy of the recorded assignment for your records.

Pursuant to your previous conversations with Will Beecherl, please find enclosed HOG's executed letter agreement regarding the drilling of the Morrow test well in the E/2 of Section 31, T-18-S, R-34-E, Lea County, New Mexico.

Thank you for your help and assistance in this matter. If you have any questions, or if we can assist you further, please do not hesitate to contact us.

Very truly yours,

*Susan Hayes*

Susan Hayes  
214-357-0333 Ext. # 140  
E-mail: [shayes@beecherl.com](mailto:shayes@beecherl.com)

Enclosures

**MAILING ADDRESS:**  
P. O. Box 35287, Dallas, Texas 75235-0287

**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

December 10, 2001

HOG Partnership L.P.  
5950 Cedar Spring Road, Suite 200  
Dallas, Texas 75235-6803

ATTN: Will Becherl *BEECHERL* FAX (214) 357-9358

RE: T-18-S, R-34-E  
Section 31: E/2  
Lea County, New Mexico  
Elk 01 Prospect

Gentlemen:

Pursuant to our recent conversation, Nearburg Exploration Company, L.L.C. (NEC) would like to acquire all of HOG Partnership, L.P.'s (HOG) interest in the acreage HOG owns in the captioned proration unit on the following basis.

- 1) On or before 180 days from execution of this Letter Agreement, NEC will commence operations for the drilling of a Morrow test in the E/2 of Section 31, T-18-S, R-34-E, Lea County, New Mexico.
- 2) Upon completion of said well as a well capable of producing in paying quantities, NEC shall earn an assignment of 100% of HOG's right, title and interest in the governmental spacing unit established by the New Mexico Oil Conservation Division.
- 3) In said assignment, HOG shall reserve an ORRI equal to the difference between existing burdens and 25%. Upon payout of said well, HOG shall have the option to convert said ORRI to a 25% working interest.
- 4) As you are aware, spacing rules for the Morrow require 320 acres per well, however, Rule 104 wells may be drilled on 160 acre units. In the event the Initial Test Well is completed as productive and NEC will earn an assignment of the entire 320 acre required for a Morrow well, however, if a second Rule 104 well is drilled on the applicable 320 acres, regardless of the payout status of the Initial Test Well, HOG agrees to again farmout its interest to NEC in said Rule 104 well under the same terms as the Initial Test Well.

In the event the Initial Test Well is completed in a formation requiring less than 320 acres spacing, NEC shall have a 180 day continuous development period within which to commence operations to drill a second or subsequent test well to earn the HOG interest under identical terms as those set forth above as the Initial Test Well.

- 5) All ORRI's and WI conversions shall be subject to proportionate reduction to the HOG interest owned in the proration unit established for each well drilled hereunder.
- 6) This offer is subject to both parties entering into a mutual form of Farmout Agreement.

If the proposal as set forth above is acceptable to HOG, please signify your acceptance by executing both copies of this letter and returning one copy to the undersigned. Upon receipt, we will forward a copy of a formal agreement for your review and execution.

If we can be of further assistance, please advise.  
Very truly yours,

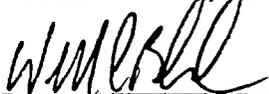


Duke Roush  
Senior Landman

DR/dw

AGREED TO AND ACCEPTED THIS 10 day of December, 2001.

**HOG PARTNERSHIP, L.P.**

By:   
Its: Ops Mng.

WILL C. BEECHERL  
OPERATIONS MANAGER  
HOG PARTNERSHIP LP

**13957**ASSIGNMENT, CONVEYANCE AND BILL OF SALE

For a valuable consideration paid to each of them, the receipt and sufficiency of which are hereby acknowledged, the undersigned:

HAMON OPERATING COMPANY, a Texas corporation;  
NANCY B. HAMON, of Dallas, Texas; and HAMON  
CHARITABLE FOUNDATION, a Texas charitable foundation;  
(collectively "ASSIGNORS" and singularly an "ASSIGNOR"), the  
address of all of which is 2626 Howell Street, Suite 905, Dallas, Texas  
75204;

have GRANTED, SOLD, TRANSFERRED, ASSIGNED and CONVEYED, and by these presents do GRANT, SELL, TRANSFER, ASSIGN and CONVEY unto:

HOG PARTNERSHIP LP ("ASSIGNEE"), a Texas limited  
partnership of which Verdad Oil & Gas Corporation, a Texas  
corporation, is general partner, whose address is 5950 Cedar Springs  
Road, Suite 242, Dallas, Texas 75235;

all of their respective rights, titles and interests in and to the properties and interests which are described on the schedule attached as Exhibit "A" hereto, together with:

- (a) all oil, condensate or natural gas wells located thereon and all leasehold, fee, mineral, royalty, overriding royalty, net profits interests and other payments out of or pursuant to production and other rights in and to oil, gas and other minerals, including contractual rights to production, and any contractual rights for the acquisition or earning of any of such interests;
- (b) all of their respective rights, privileges, benefits and powers as the owner or holder of any property or interest described in Exhibit "A" with respect to the use and occupancy of the surface of, and the subsurface depths under, the land covered by such property or interest that may be necessary, convenient or incidental to the possession and enjoyment of such property or interest; all of their respective rights in any pools or units, including all or a part of any such property or interest, including the production from any such unit;
- (c) all of the permits, servitudes, easements, rights-of-way (including, without limitation, any rights-of-way, permits and licenses described

on Exhibit "A"), orders, lease agreements, royalty agreements, assignments, gas purchase and sale contracts, oil purchase and sale agreements, surface leases, farmin and farmout agreements, bottom hole agreements, transportation and marketing agreements, acreage contribution agreements, operating agreements, unit agreements, processing agreements options, facilities or equipment leases and other contracts, agreements and rights that are owned by ASSIGNORS, in whole or in part, and are (i) in the chain of title for, appurtenant to or affecting the properties and interests described in Exhibit "A", or (ii) used or held for use in connection with the ownership or operation of such properties and interests, or with the production or treatment of hydrocarbons or the sale or disposal of water, hydrocarbons or associated substances therefrom; and

- (d) all of the equipment, machinery, fixtures and other real, personal and mixed property located on such properties and interests or used or held for use in the operation thereof (whether located on or off such properties and interests), insofar as it is owned by an ASSIGNOR or by third persons on behalf of an ASSIGNOR, in whole or in part, including, without limitation, wells, well equipment, casing, rods, tanks, boilers, buildings, tubing, pumps, motors, fixtures, machinery, inventory, rolling stock and other equipment, separators, dehydrators, compressors, treaters, pipelines, gathering systems, power lines, roads, field processing plants and other improvements.

Notwithstanding any particular reference or description contained in Exhibit "A" hereto or any interest therein described, it is intended hereby to grant, transfer, assign and convey, and there are hereby granted, transferred, assigned and conveyed, all of the rights, titles and interests of ASSIGNORS, or any of them, in and to (i) lands within the county or parish described on Exhibit "A" hereto, and (ii) oil, gas and minerals, royalty in oil, gas and minerals, overriding royalty interests in oil, gas and minerals, oil, gas and mineral leases and leasehold estates, and other interests in oil, gas and minerals, of whatsoever nature, in, to or under lands within the county or parish described on Exhibit "A" hereto.

ALL WELLS, PERSONAL PROPERTY AND EQUIPMENT HEREBY SOLD AND DELIVERED ARE SOLD AND DELIVERED WITHOUT WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THEIR MERCHANTABILITY, QUALITY, CONDITION OR FITNESS FOR ANY PARTICULAR PURPOSE OR OPERABILITY. ALL SUCH WELLS, PERSONAL PROPERTY AND EQUIPMENT ARE SOLD AND DELIVERED BY ASSIGNORS AND ACCEPTED BY ASSIGNEE, AS IS, WHERE IS, IN THE CONDITION IN WHICH THE SAME EXIST AND WITH ALL FAULTS AND DEFECTS, WHETHER APPARENT OR HIDDEN, KNOWN OR UNKNOWN.

For the consideration hereinabove recited, HAMON OPERATING COMPANY and NANCY B. HAMON warrant to ASSIGNEE that (i) no ASSIGNOR has previously assigned or conveyed the properties and interests hereby assigned and conveyed, (ii) such properties and interests are free and clear of all liens, security interests and encumbrances other than inchoate operators' liens attributable to unbilled joint account expenditures, and (iii) they will forever warrant and defend the title to such properties and interests from and against all claims and demands arising or created by, through or under any of the ASSIGNORS, but not otherwise. The assignment and conveyance herein made by HAMON CHARITABLE FOUNDATION is made without warranty of title, express or implied.

Each sale, transfer, assignment and conveyance herein made shall be effective for all purposes, including the production of oil and gas, as of August 1, 2001, at 7:00 o'clock A.M., C.D.T.

EXECUTED this 18th day of October, 2001.

Nancy B. Hamon  
Nancy B. Hamon, a single woman

- (i) Individually,
- (ii) As President and on behalf of HAMON OPERATING COMPANY, and
- (iii) As President and on behalf of HAMON CHARITABLE FOUNDATION

THE STATE OF TEXAS    §  
                                  §  
COUNTY OF DALLAS    §

The foregoing instrument was acknowledged before me this 22 day of October, 2001, by NANCY B. HAMON, who acknowledged that she executed the same (i) individually, (ii) as the President and on behalf of HAMON OPERATING COMPANY, a Texas corporation, and (iii) as the President and on behalf of HAMON CHARITABLE FOUNDATION, a Texas charitable foundation.

Linda J. Dunavant  
Notary Public in and for  
the State of Texas

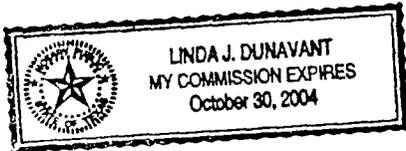


EXHIBIT A

Schedule of Properties  
in the State and County or Parish Hereinafter Identified

If the term HOC or the name Hamon appears in the following text, such term or name shall mean and refer to Assignors collectively.

If the term JOA appears in the following text, such term shall identify a joint operating agreement bearing the date indicated and any amendments and supplements thereto.

LANDS AND LEASES

<u>LEASE #</u>	<u>DATE</u>	<u>LESSOR</u>	<u>LESSEE</u>	<u>BOOK</u>	<u>PAGE</u>	<u>DESCRIPTION</u>
708,001	9/1/51	C. Plant	W. G. Ross	94	370	Only insofar as lease covers: Township 11 South, Range 32 East: Section 25: S/2 NW/4 (all depths) N/2 NW/4 below 100' below TD in Moore 1, 2 & 3 (10,800')
708,002	9/1/51	J. Harold Schuman, et ux	W. G. Ross	94	368	Only insofar as lease covers: Township 11 South, Range 32 East: Section 25: S/2 NW/4 (all depths) N/2 NW/4 below 100' below TD in Moore 1, 2 & 3 (10,800')

LANDS AND LEASES

<u>LEASE #</u>	<u>DATE</u>	<u>LESSOR</u>	<u>LESSEE</u>	<u>BOOK</u>	<u>PAGE</u>	<u>DESCRIPTION</u>
6773,001						
		Undivided 7/10 x 3/32 mineral interest (Non-Producing)				Township 20 South, Range 36 East: Section 17: NE/4
6504,000	11/1/91	USA - NMLC 046164-B (Non-Producing)	Amerada Hess Corporation			Township 20 South, Range 36 East Section 17: S/2
		HOC interest is by virtue of JOA dd 1/27/65				

Subject to JOA dd 1/27/65 (see file #5563), as amended 5/19/66 covering the following acreage:

- T20S-R36E:
  - Section 17: All
  - Section 18: All
  - Section 19: All (Note: HOC sold its contractual interest under Sec. 19)
  - Section 20: N/2, N/2SE/4
  - Section 29: All
  - Section 30: N/2 NE/4, 4300' to 11570'
  - Section 30: S/2 NE/4, NW/4, S/2, Surface to 11570'
- ...
- JOA dd 10/10/67 superceded & replaced the 1/27/65 JOA insofar only as to Section 20.

NEW MEXICO, Lea County

LANDS AND LEASES

<u>LEASE #</u>	<u>DATE</u>	<u>LESSOR</u>	<u>LESSEE</u>	<u>BOOKPAGE</u>	<u>DESCRIPTION</u>
959.000					
		HOC owns a 5/640 non-producing, perpetual mineral interest			
				60 334	Township 13 South, Range 33 East Section 29: E/2
1439.000	11/7/45	Boon Hardin, et al	Reese Cleveland		
					Insofar as the lease covers the following: Township 17 South, Range 38 East Section 24: S/2NE/4 and SE/4
4760.000	12/1/48	U.S.A., Bureau of Land Management (Lease LC-066147)	Dwight Allison		
					Insofar as the lease covers the following: Township 20 South, Range 35 East Section 8: S/2SW/4 Section 17: S/2SE/4

NEW MEXICO, Lea County

4763.000      6/1/52      Bureau of Land Management  
No. NM04786

J. T. Bonner

Insofar as the lease covers the following:  
Township 20 South, Range 35 East  
Section 8: N/2SW/4, SE/4  
Section 9: SE/4

20345.000      1/2/34      State of New Mexico  
B-2330      Tide Water Oil Company

HOC's interest is virtue JOA dated 5-15-68 (see file #7679).

Insofar as said lease covers:  
Township 16 South, Range 36 East  
Section 31: NE/4NW/4, NW/4NW/4 (Lot 1),  
and SE/4NW/4

Subject to term assignment to David H. Arrington Oil & Gas, Inc., covering Lot 1 and E/2 NW/4, of Section 31, T-16-S, R-36-E, in which HOC reserved a 22% override absorbing existing royalties and overrides.



STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

NOV 13 2001

at 4:23 P M  
and recorded in Book 1112  
Page 473  
Melinda Hughes, Lea County Clerk  
By C. Sandoval Deputy

BOOK 1112 PAGE 481

45661