

Hixon Development COMPANY

Application for Non-Standard Oil Proration Unit
Hixon Development Company
New Mexico Oil Conservation Division Case #9295
February 3, 1988

January 21, 1988

Exhibit 3

Mr. William Branch
Manager, Acquisitions
Sun Exploration & Production Company
8150 North Central Expy.
P. O. Box 2880
Dallas, TX 75221-2880

Subject: Wildfire Well No. 1
Section 26, T26N, R3W
San Juan Co., NM

Dear Mr. Branch:

This letter is in reference to your correspondence dated June 29, 1987 regarding the referenced well. It also concerns our letter to Ms. Elisa Shea of your Denver office, a copy of which is enclosed.

We have reviewed this situation and feel that a possible alternative to drilling the proposed infill well in section 26 would be for Hixon Development Company et al to join with Sun and create a 640 acre proration unit encompassing the entire section. This could be accomplished by our purchasing a 50% working interest in the Wildfire No. 1 and at the same time contributing our half of the section to your well.

In order to be equitable in joining our interests we are offering you the same dollar amount per working interest percent that you offered Hixon in your June letter, the only difference being that you were offering to buy an overriding royalty interest with a reversion. We have determined that a working interest percentage is equal to half of the value of an override percentage. Thus your offer of \$22,000.00 for a 3.0% ORRI would be proportionate to \$183,333.33 for a 50.0% working interest.

Our hearing for the nonstandard location is scheduled for February 3, 1988, so if it is possible we would like to have some idea of what your position on communitization is by then. If that is not possible we can still communitize even though a non-standard proration unit has been approved. This offer may be accepted in writing any time until 4:00 p.m. MST February 19, 1988.

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OIL CONSERVATION DIVISION

This offer is made subject to the same six points included in your letter, to wit:

1. The effective date of the purchase shall be 7:00 a.m. on April 1, 1988. All operating and other costs and charges attributable to the Subject Properties prior to the effective date shall remain your responsibility. Taxes and other like charges shall be prorated as of the effective date of the purchase.
2. The closing of the sale shall take place within thirty (30) days after Hixon notifies you that Hixon accepts your title. In the event your title to any of the Subject Properties should fail, Hixon shall have the right but not the obligation to close on those properties whose title Hixon has approved and Hixon shall reduce the purchase price by the amount allocated by it to the properties whose title failed. In the event title should fail as to a portion of any of the Subject Properties so that you are unable to deliver to Hixon the billing and income interests therein specified in Exhibit "A", Hixon shall have the right but not the obligation to close on said property but shall reduce the purchase price allocated by it in the proportion that the amount of reduced income interest bears to the income interest specified.
3. The purchase price shall be reduced by the amount of net income, if any (being the proceeds from the sale of all production less operating costs) received by you from the Subject Properties, from and after the effective date. Within ninety days following closing, or as soon thereafter as practical, an accounting and adjustment between the parties will be made of all charges and credits arising subsequent to the effective date and prior to closing. However, neither party to this agreement shall be absolved from liability should such accounting and adjustment not be completed within said ninety-day period.
4. You shall forthwith furnish to Hixon copies of all leases, abstracts of title, agreements and other documents and correspondence, including prior title opinions, in your possession in any way affecting title to the Subject Properties.
5. At closing, you will deliver to Hixon assignments, bills of sale, and other instruments, relating to or necessary to close the sale of the Subject Properties, all to be in form and content acceptable to Hixon. In such instruments you shall warrant that you are the owner of the interests described therein and have the right to sell same and that the Subject Properties are free and clear of all liens, charges and encumbrances of whatsoever kind and nature, including but not

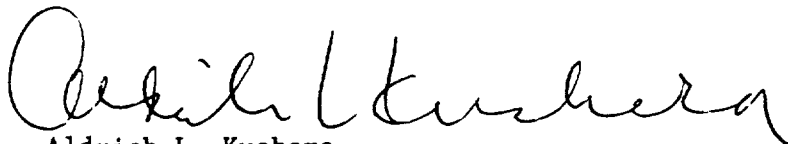
limited to any federal or state refund obligations, excepting only instruments presently of record creating royalty and overriding royalty interests. On and after the closing, you agree at Hixon's request, from time to time, to execute and deliver such other and additional instruments, notices, releases and other documents and to do all such other acts necessary to fully accomplish Hixon's acquisition of the Subject Properties.

6. You shall continue to remain liable and shall indemnify Hixon from and against any liability, loss, costs, claims, or damages arising or accruing prior to the closing date, and such indemnification shall be included in and shall be deemed to apply to all assignments, transfers and other documents conveying the Subject Properties to Hixon.

To accept this offer, please return one executed copy of this letter to Hixon to my attention. Upon your acceptance, this letter shall constitute a contract of purchase and sale binding upon the parties hereto and their respective successors and assigns.

Very truly yours,

HIXON DEVELOPMENT COMPANY



Aldrich L. Kuchera
President

JCC/plc

Accepted and Agreed to this _____ day
of _____, 1988.

SUN EXPLORATION & PRODUCTION COMPANY

By: _____
Title: