

**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 14, 1998

Merit Energy Partners VII, L.P.  
12222 Merit Drive  
Dallas, Texas 75251-2217

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

Re: NOTIFICATION OF ELECTION  
Compulsory Pooling  
Viper "3" Federal #1  
Surface Location: 1,600' FEL and 2,200' FSL  
Bottom Hole Location: Estimated 1,650' FNL and 1,650' FEL  
Section 3, T-20-S, R-33-E  
Lea County, New Mexico  
NMOCD Case #12087 Order R-11109

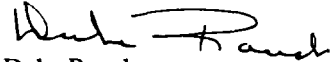
Gentlemen:

On behalf of Nearburg Exploration Company, L.L.C. and in accordance with the terms of the New Mexico Oil Conservation Division Order R-11109, copy enclosed, I am providing you with notice of your right to elect to participate in the well to be drilled pursuant to this order.

Our records indicate that you have a working interest ownership in this 320 acre spacing unit for all formations from the surface to the base of the Morrow formation in the spacing unit proposed for this well. Should you desire to participate in this well and avoid the payment of the 200% risk factor out of its share of production, then within thirty days of the date you receive this letter, Nearburg Exploration Company, L.L.C. must receive a cashier's check for your percentage of the complete well costs and a letter signed by you agreeing to participate in this well pursuant to this pooling order. Enclosed is a copy of the AFE for this well.

If you decide not to participate, then you need do nothing further. In that event, Nearburg Exploration Company, L.L.C. will pay your share of the costs of the well and will recover your share out of production plus an additional 200 percent.

Yours very truly,



Duke Roush  
Senior Landman

DR/dw  
encl.

cc: Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
2040 Pacheco Street  
Santa Fe, New Mexico 87505

**Nearburg Producing Company**

Exploration and Production

Dallas, Texas

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**AUTHORITY FOR EXPENDITURE**

LEASE: Viper "3" Federal      WELL NUMBER: 1      PROPOSED TOTAL DEPTH: 13,700' (TVD)  
 LOCATION: SHL: 1,600' FEL & 2,200' FSL, BHL: 1,650' FEL & 1,650' FNL, Section 3, T20S, R33E, Lea County, NM  
 FIELD: Buffalo Penn Gas East      PROSPECT: Viper      EXPLORATORY, DEVELOPMENT, WO: E  
 DESCRIPTION OF WORK: Drill directionally to BHL and complete as a flowing Morrow gas producer.  
 Cost estimate does not include fracture stimulation.  
 DATE PREPARED: 8/6/98      EST. SPUD DATE: 1998      EST. COMPLETION DATE:  
 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 @	\$/Ft	1514.101	0	NA		0
Drilling Daywork	D/C\$/day 60	2 5800	1514.103	348,000	1515.105	11,600	359,600
Drilling Turnkey			1514.110		1515.110		0
Rig Mobilization and Demobilization			1514.115	25,000	1515.115	3,000	28,000
Road & Location Expense			1514.120	25,000	1515.123		25,000
Damages			1514.125	5,000	1515.125		5,000
Directional Drilling - Tools and Service			1514.130	80,000	1515.130		80,000
Drilling Fluids			1514.135	55,000	1515.132	1,000	56,000
Fuel, Power, and Water			1514.140	20,000	1515.140	2,000	22,000
Supplies - Bits			1514.145	60,000	1515.145	1,000	61,000
Supplies - Casing Equipment			1514.150	4,000	1515.150	8,000	12,000
Supplies - Liner Equipment			1514.155	13,500	1515.156		13,500
Supplies - Miscellaneous			1514.160	1,000	1515.160	500	1,500
Cement and Cmt. Services - Surface Csg			1514.165	7,000	NA		7,000
Cement and Cmt. Services - Int. Csg			1514.170	12,500	NA		12,500
Cement and Cmt. Services - Prod. Csg			NA		1515.172	30,000	30,000
Cement and Cmt. Services - Other			1514.175	8,000	1515.175		8,000
Rental - Drilling Tools and Equipment			1514.180	20,000	1515.180		20,000
Rental - Miscellaneous			1514.185	15,000	1515.185	3,000	18,000
Testing - Drill Stem / Production			1514.185	8,000	1515.185	2,500	10,500
Open Hole Logging			1514.200	40,000	NA		40,000
Mudlogging Services			1514.210	15,000	NA		15,000
Special Services			1514.190		1515.190		0
Plug and Abandon			1514.215	12,000	1515.215	(12,000)	0
Pulling and/or Swabbing Unit			NA		1515.217	12,000	12,000
Reverse Equipment			NA		1515.218	3,000	3,000
Wireline Services			1514.205		1515.205	18,000	18,000
Stimulation			NA		1515.221	12,000	12,000
Pump / Vacuum Truck Services			1514.220	500	1515.220	2,500	3,000
Transportation			1514.225	1,500	1515.225	4,000	5,500
Tubular Goods - Inspection & Testing			1514.230	1,500	1515.230	10,000	11,500
Unclassified			1514.245		1515.245		0
Telephone and Radio Expense			1514.240	1,500	1515.240	500	2,000
Engineer / Geologist / Landman			1514.250	7,500	1515.250	2,500	10,000
Company Labor - Field Supervision			1514.255	25,000	1515.255	7,000	32,000
Contract Labor / Roustabout			1514.265	8,000	1515.265	7,000	15,000
Legal and Professional Service			1514.270	5,000	1515.270	2,000	7,000
Insurance			1514.275	21,300	1515.275		21,300
Overhead			1514.280	13,000	1515.280	3,000	16,000
<b>SUBTOTAL</b>				858,800		134,100	992,900
Contingencies (10%)				85,880		13,410	99,290
<b>ESTIMATED TOTAL INTANGIBLES</b>				944,680		147,510	1,092,190

**Nearburg Producing Company**

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Exploration and Production

Dallas, Texas

**AUTHORITY FOR EXPENDITURE**

LEASE: Viper "3" Federal

WELL NUMBER: 1

PROPOSED TOTAL DEPTH: 13,700' (TVD)

LOCATION: SHL: 1,600' FEL &amp; 2,200' FSL, BHL: 1,650' FEL &amp; 1,650' FNL, Section 3, T20S, R33E, Lea County, NM

FIELD: Buffalo Penn Gas East

PROSPECT: Viper

EXPLORATORY, DEVELOPMENT, WO: E

DESCRIPTION OF WORK: Drill directionally to BHL and complete as a flowing Morrow gas producer.

DATE PREPARED: 8/6/98

EST. SPUD DATE: 1998

EST. COMPLETION DATE:

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

<b>TANGIBLE COSTS:</b>	<b>CODE</b>	<b>TO CSG PT</b>	<b>CODE</b>	<b>COMPLETION</b>	<b>TOTAL WELL</b>
Conductor Casing	1520.305		NA		0
Surface Csg 1,350 Ft @ 25.00 \$/Ft	1520.310	33,750	NA		33,750
Intermediate Csg 3,750 Ft @ 27.50 \$/Ft	1520.315	103,125	NA		103,125
Protection Csg 1,700 Ft @ 14.50 \$/Ft	1520.320	24,650	NA		24,650
Production Csg 13,843 Ft @ 10.00 \$/Ft	NA		1522.325	138,430	138,430
Protection Liner Ft @ \$/Ft	1520.330	0	NA		0
Production Liner Ft @ \$/Ft	NA		1522.335	0	0
Tubing 13,400 Ft @ 3.25 \$/Ft	NA		1522.340	43,550	43,550
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	3,500	1522.365	12,000	15,500
Subsurface Well Equipment	NA		1522.370	6,000	6,000
Flow Lines	NA		1522.375	25,000	25,000
Saltwater Disposal Pump	NA		1522.380		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		0
ROW and Damages	NA		1522.393	2,500	2,500
Surface Equipment Installation Costs	NA		1522.395	7,500	7,500
Elect. Installation	NA		1522.397		0
<b>ESTIMATED TOTAL TANGIBLES</b>		165,025		262,980	428,005
<b>ESTIMATED TOTAL WELL COSTS</b>		1,109,705		410,490	1,520,195

<b>NPC APPROVAL</b>	<b>DATE</b>
PREPARED BY: <i>H. R. Willis</i>	8/6/98
APPROVED BY: <i>E. Scott Kimbrough</i>	8/6/98
APPROVED BY:	
APPROVED BY:	

WI APPROVAL: COMPANY

MERIT ENERGY PARTNERS VII, L.P.

2.31001%

BY

TITLE

DATE