

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 III, 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

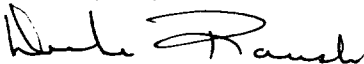
Gentlemen:

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

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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:

INTANGIBLE COSTS:				CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage	13,700 Ft @	\$/Ft		1514.101	0	NA		0
Drilling Daywork	D/C\$/day	60	2 5800	1514.105	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	1515.120		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	1515.135	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	1515.155		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		1515.175	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				1514.190	8,000	1515.190	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		1515.219	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
SUBTOTAL					858,800		134,100	992,900
Contingencies (10%)					85,880		13,410	99,290
ESTIMATED TOTAL INTANGIBLES					944,680		147,510	1,092,190

Nearburg Producing Company

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DATE PREPARED: 8/6/98

EST. SPUD DATE: 1998

EST. COMPLETION DATE:

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
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		1522.390		0
Vapor Recovery Unit	NA		1522.395		0
Other Well Equipment	NA		1522.400		0
ROW and Damages	NA		1522.405	2,500	2,500
Surface Equipment Installation Costs	NA		1522.410	7,500	7,500
Elect. Installation	NA		1522.415		0
ESTIMATED TOTAL TANGIBLES		165,025		262,980	428,005
ESTIMATED TOTAL WELL COSTS		1,109,705		410,490	1,520,195

NPC APPROVAL	DATE
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 III, L.P. 0.25295%

BY _____

TITLE _____

DATE _____