

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

3

February 15, 2000

EOG Resources  
4000 N. Big Spring, Suite 500  
Midland, TX 70705

Attn: Mr. Patrick J. Tower, CPL

Re: Term Assignment Request  
NW/4 of Section 3; NE/4 of Section 4;  
and NW/4 NW/4 of Section 10,  
T-19-S, R-27-E, NMPM,  
Kaiser Lake Prospect  
Eddy County, New Mexico

Dear Pat:

Pursuant to our telephone conversation last week, this letter shall set forth the general terms and conditions of our request for EOG Resources ("EOG") to grant a term assignment to Nearburg Exploration Company, LLC ("Nearburg") on the captioned lands (357.02 net acres). The requested terms for said assignment are as follows:

1. Nearburg will pay EOG \$200.00 per acre (or a total of \$71,704.00) for a two (2) year term assignment, covering 100% of the leasehold rights under the captioned acreage, from the surface to the base of the Morrow formation thereunder.
2. EOG will retain an overriding royalty interest equal to the difference between existing burdens and 20%, thus delivering to Nearburg a 80% net revenue interest under the term assignment.

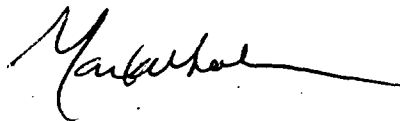
If these terms are acceptable, Nearburg will prepare a formal term assignment instrument for your review and approval or we will review EOG's preferred form if you desire.

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12517 Exhibit No. 3  
Submitted by:  
Nearburg Exploration Company, L.L.C.  
Hearing Date: October 19, 2000

EOG Resources  
February 15, 2000  
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Should you have any questions concerning these matters, please contact me at the number shown in the letterhead. Thank you for your cooperation and we look forward to hearing from you shortly.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Wheeler', with a long horizontal flourish extending to the right.

Mark Wheeler, CPL  
Senior Landman

**Nearburg Exploration Company, L.L.C.**

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July 28, 2000

**CERTIFIED MAIL – RETURN RECEIPT REQUESTED**

Mr. Patrick Tower  
EOG Resources, Inc.  
P. O. Box 2267  
Midland, Texas 79702

Re: Kaiser Lake "4" Fed. Com. #1  
1,650' FNL and 1,650' FEL  
Section 4, T-19-S, R-27-E  
Eddy County, New Mexico  
Kaiser Lake Prospect

Gentlemen:

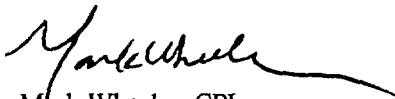
Nearburg Exploration Company, L.L.C. (NEC) hereby proposes the drilling of a 10,100' Morrow well at the captioned location. We have enclosed herewith, an AFE setting forth NEC's estimated cost to drill and complete for your review and execution, should you elect to participate in the drilling of this well.

Should you not elect to participate, NEC would consider acquiring a term assignment or farmout of your interest on reasonable terms.

We will forward our proposed Joint Operating Agreement soon under a separate cover letter.

If we can be of further assistance, please advise.

Yours very truly,



Mark Wheeler, CPL  
Senior Landman

MW/dw  
encl.

cc: Kathie Craft  
Tim MacDonald

**Nearburg Producing Company**Exploration and Production  
Dallas, Texas

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**AUTHORITY FOR EXPENDITURE**

LEASE: Kaiser Lake 4 Fed Com

WELL NUMBER: 1

PBTD: 10,100'

LOCATION: 1,650' FNL &amp; 1,650' FEL, Section 4, T19S, R27E, Eddy County NM

FIELD: Wildcat

EXPLORATORY DEVELOPMENT, WORKOVER: E

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

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DATE PREPARED: 7/27/00

EST. START DATE: 8/15/00

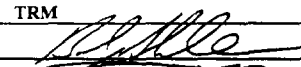

EST. COMPLETION DATE: 9/1/00

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 Casin 0 Ft @ 0.00 \$/Ft	1520.308	0	NA	0	0
Surface Csg 350 Ft @ 24.00 \$/Ft	1520.310	8,400	NA	0	8,400
Intermediate Cs 2,300 Ft @ 14.00 \$/Ft	1520.315	32,200	NA	0	32,200
Protection Csg 0 Ft @ 0.00 \$/Ft	1520.320	0	NA	0	0
Production Csg 10,100 Ft @ 8.00 \$/Ft	NA	0	1522.325	80,800	80,800
Protection Liner 0 Ft @ 0.00 \$/Ft	1520.330	0	NA	0	0
Production Line 0 Ft @ 0.00 \$/Ft	NA	0	1522.335	0	0
Tubing 9,900 Ft @ 3.38 \$/Ft	NA	0	1522.340	33,462	33,462
Rods 0 Ft @ 0.00 \$/Ft	NA	0	1522.345	0	0
Artificial Lift Equipment	NA	0	1522.350	0	0
Tank Battery	NA	0	1522.355	10,600	10,600
Separators/Heater Treater/Gas Units/FWKO	NA	0	1522.360	12,720	12,720
* Well Head Equipment & Christmas Tree	1520.365	5,500	1522.365	11,500	17,000
Subsurface Well Equipment	NA	0	1522.370	6,148	6,148
Flow Lines	NA	0	1522.375	13,250	13,250
Saltwater Disposal Pump	NA	0	1522.380	0	0
Gas Meter	NA	0	1522.385	1,484	1,484
Lact Unit	NA	0	1522.390	0	0
Vapor Recovery Unit	NA	0	1522.395	0	0
Other Well Equipment	NA	0	1522.400	0	0
ROW and Damages	NA	0	1522.405	0	0
Surface Equipment Installation Costs	NA	0	1522.410	9,540	9,540
Elect. Installation	NA	0	1522.415	0	0
<b>ESTIMATED TOTAL TANGIBLES</b>		<b>46,100</b>		<b>179,504</b>	<b>225,604</b>
<b>ESTIMATED TOTAL WELL COSTS</b>		<b>575,275</b>		<b>318,040</b>	<b>893,315</b>

THIS AFE IS ONLY AN ESTIMATE. BY SIGNING YOU AGREE TO PAY YOUR SHARE OF THE ACTUAL COSTS INCURRED.

<b>NPC APPROVAL</b>	<b>DATE</b>
PREPARED BY: HRW	07/27/00
REVIEWED BY: TRM	
APPROVED BY: 	
APPROVED BY: 	7/27/00

WI APPROVAL:

COMPANY

BY

TITLE

DATE

## AUTHORITY FOR EXPENDITURE

LEASE: Kaiser Lake 4 Fed Com WELL NUMBER: 1 PBTD: 10,100'  
 LOCATION: 1,650' FNL & 1,650' FEL, Section 4, T19S, R27E, Eddy County NM  
 FIELD: Wildcat EXPLORATORY, DEVELOPMENT, WORKOVER: E  
 DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer.

DATE PREPARED: 7/27/00 EST. START DATE: 8/15/00 EST. COMPLETION DATE: 9/1/00  
 ACCOUNTING WELL NUMBER:  
 COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 10,100 Ft @ 21.00 \$/Ft	1514.101	224,826	NA	0	224,826
Drilling Daywork 2 2 6.200 \$/day	1514.105	13,144	1515.105	13,144	26,288
Drilling Turnkey	1514.110	0	1515.110	0	0
Rig Mobilization and Demobilization	1514.115	0	1515.115	0	0
Road & Location Expense	1514.120	28,355	1515.123	2,120	30,475
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	37,100	1515.132	0	37,100
Fuel, Power, and Water	1514.140	15,900	1515.140	0	15,900
Supplies - Bits	1514.145	0	1515.145	1,060	1,060
Supplies - Casing Equipment	1514.150	1,720	1515.150	4,770	6,490
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	1514.165	4,240	NA	0	4,240
Cement and Cmt. Services - Int. Csg	1514.170	12,720	NA	0	12,720
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	0	1515.180	0	0
Rental - Misc.	1514.185	20,564	1515.185	3,180	23,744
Testing - Drill Stem / Production	1514.190	4,770	1515.195	2,650	7,420
Open Hole Logging	1514.200	31,800	NA	0	31,800
Mudlogging Services	1514.210	13,250	NA	0	13,250
Special Services	1514.190	0	1515.190	0	0
Plug and Abandon	1514.215	12,000	1515.215	(12,000)	0
Pulling and/or Swabbing Unit	NA	0	1515.217	15,264	15,264
Reverse Equipment	NA	0	1515.219	5,300	5,300
Wireline Services	1514.205	0	1515.205	19,080	19,080
Stimulation	NA	0	1515.221	12,720	12,720
Pump / Vacuum Truck Services	1514.220	0	1515.220	6,646	6,646
Transportation	1514.225	2,120	1515.225	2,650	4,770
Tubular Goods - Inspection & Testing	1514.230	1,590	1515.230	5,300	6,890
Unclassified	1514.245	530	1515.245	0	530
Telephone and Radio Expense	1514.210	1,113	1515.240	318	1,431
Engineer / Geologist / Landman	1514.250	15,000	1515.250	3,000	18,000
Company Labor - Field Supervision	1514.255	15,900	1515.255	6,500	22,400
Contract Labor / Roustabout	1514.265	1,590	1515.265	9,540	11,130
Legal and Professional Service	1514.270	5,000	1515.270	0	5,000
Insurance	1514.275	5,836	1515.275	0	5,836
Overhead	1514.280	7,000	1515.280	3,500	10,500
<b>SUBTOTAL</b>		<b>481,068</b>		<b>125,942</b>	<b>607,010</b>
Contingencies (10%)		<b>48,107</b>		<b>12,594</b>	<b>60,701</b>
<b>ESTIMATED TOTAL INTANGIBLES</b>		<b>529,175</b>		<b>138,536</b>	<b>667,711</b>