

Nearburg Producing Company

Exploration and Production
401 E. Illinois, Suite 300
Midland, Texas 79701
915 686-8235

April 26, 1989

BEFORE EXAMINER STOGNER OIL CONSERVATION DIVISION <u>NEARBURG</u> EXHIBIT NO. <u>3</u> CASE NO. <u>9693</u>
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Lonnie Whitfield
Pennzoil Corporation
P. O. Box 1828
Midland, Texas 79702-1828

Re: Section 1-17S-37E (N/2 SW/4)
Lea County, New Mexico

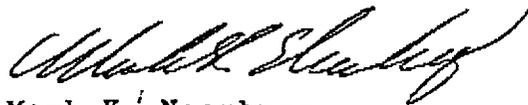
Dear Mr. Whitfield:

Nearburg Producing Company proposes to drill and operate a Strawn well at a location 2130' FSL & 660' FWL on a N/2 SW/4 proration unit in the captioned Section. Our records indicate Pennzoil owns an approximate 76.79687% working interest in this unit. Nearburg hereby requests a farmout of Pennzoil's interest in the N/2 SW/4 on the following terms:

- 1) Nearburg will commence or cause to be commenced a Strawn test well no later than July 15, 1989;
- 2) Upon completion of the well as a producer of oil or gas Nearburg shall earn an assignment of Pennzoil's interest from the surface to 100' below total depth drilled, with Pennzoil reserving the difference between 25% and existing Lease royalty burdens as an overriding royalty, proportionately reduced;
- 3) At payout of the Strawn test well, Pennzoil shall have the option to convert its overriding royalty to a 25% reversionary working interest, proportionately reduced.

This offer is subject to execution of a formal farmout agreement. If you have any questions, please call me.

Yours truly,



Mark K. Nearburg
Land Manager

MKN/my