

**BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico**

Case No. 10944 Exhibit No. 3

Submitted by: Mewbourne Oil Company

Hearing Date: March 17, 1994

CHALK BLUFF DRAW PROSPECT

Illinois Camp "20" State #1 Well
N/2, Section 20, T18S-R28E
Eddy County, New Mexico

Case # 10944

ARCO - 18.7500%

Mr. John Lodge

10-22-93 Well proposal and AFE sent.
10-26-93 Per Steve Cobb's breakfast meeting with John Lodge, ARCO will farmout its interest. Currently re-organizing the company.
11-10-93 Sent N.M.O.C.D. letter.
12-01-93 Sent advance notice of hearing letter.
12-08-93 Breakfast meeting with Steve Cobb.
12-16-93 Letter to Mr. Lodge confirming previous conversations with Steve Cobb.
12-30-93 Per Steve Cobb, ARCO will send Letter Agreement.
01-20-94 Advised John of our amended location.
01-20-94 Sent letter amended AFE and well proposal.
01-21-94 Lunch w/Steve Cobb.
01-24-94 Per meeting w/John Lodge, ARCO can not commit its acreage at this time as it is subject to an Amoco-ARCO expl. agreement currently being negotiated.
01-27-94 Lunch w/Steve Cobb.
01-28-94 Spoke with John on the phone, also sent letter outlining terms of our verbal communications about how ARCO will commit their acreage.
02-04-94 Sent N.M.O.C.D. Letter.
02-17-94 Steve had breakfast with John, discussed our proposal.
02-24-94 Steve spoke with John we should know something this week.
03-02-94 Per Steve's conversation with John we will have a signed agreement before our pooling hearing.
03-03-94 Per Steve's conversation w/John he confirmed we would have a signed agreement before the hearing.
03-08-94 Submitted John lease information in regard to ARCO's preparation of the farmout agreement to us.

Mrs. Margaret Nichols - 12.5000%

Mrs. Nichols:

09-23-93 Sent letter offering to purchase their interest.
10-18-93 Follow up call, left message.
10-20-93 Sent letter regarding our offer stating our interest in a farmout in lieu of selling their interest.
10-22-93 Sent well proposal, Called and left a message.
10-25-93 Follow up call, left a message.
10-29-93 Follow up call, left a message at 3:18 p.m.
11-01-93 Mrs. Nichols advised me her husband died this summer and she's trying to administer his Estate. She doesn't want to make any decisions right now. I advised her of pooling. She's to talk with someone Thursday. Advised us to call back Monday for an appointment.
11-04-93 Per Mrs. Nichols she doesn't want to do anything regarding our proposal. Advised us to call back November 8, to set up meeting for next week.
11-08-93 Per Mrs. Nichols she is not interested in me meeting with her in Dallas to discuss our proposal. She simply is not interested in negotiating a trade at this time probably after Christmas.
11-08-93 Sent letter advising again our proposal and the consequences of having to be force pooled. Requested she reconsider and either sell or farmout her interest.

11-10-93 Sent advance notice hearing letter.
11-17-93 Received a fax from Mrs. Nichols advising of the terms she wanted for a farmout agreement.
11-19-93 Sent letter to Mrs. Nichols stating what we would agree to for a farmout agreement.
11-23-93 Went to see her in Dallas, she was still undecided.
12-01-93 Sent advance notice hearing letter.
12-13-93 Spoke with her on the phone she made a counter offer wanting 1/4 royalty, will deliver a 73% NRI and she also wanted cash.
12-22-93 She will give us a (3) year term assignment, no cash, deliver us a 73% NRI. Paul Haden will go to Dallas after Christmas to discuss.
12-28-93 Received unclaimed certified advance notice hearing letter.
01-11-94 Met with Mrs. Nichols regarding our proposed term assignment, discussed the terms. She is to review this with her Attorney, if approved she will sign and return.
01-13-94 Letter from Mrs. Nichols where we are agreeing to her terms for a F/O/A. signed January 11, 1994 by Paul Haden.
01-19-94 Sent letter to Mrs. Nichols giving her information about a probate proceeding and how to go about getting this done as soon as possible.
01-20-94 Sent her the revised AFE and well proposal.
01-27-94 Follow up call, she has not had time to review our assignment as she has had a toothache.
02-07-94 Follow up call, she wanted to strike the warranty provision, we said ok. She would sign and send in a couple of days.
02-17-94 Paul called and advised that he would be in Dallas would she like to meet regarding any questions. She said no that she would sign our assignment and send it this date.
02-28-94 Received executed assignment from Mrs. Nichols, she revised some of the terms.
03-01-94 Advised Mrs. Nichols we named her husbands' Estate as a respondent in our pooling hearing as the Estate hasn't been probated yet.
03-03-94 Advised Mrs. Nichols that the paragraph she revised was not acceptable to us. I advised her how we would revise the paragraph to fit her needs plus adding her land in Sec. 29. She agreed.
03-04-94 Mailed revised assignment to Mrs. Nichols for execution again advised Mrs. Nichols we had to name her husband's Estate in the pooling since the Estate was not yet probated.

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020

MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

March 8, 1994

Hand Delivered

ARCO Oil and Gas Company
P. O. Box 1610
Midland, Texas 79702

Attn: Mr. John E. Lodge

Re: Chalk Bluff Draw Prospect
N/2 Sec. 20 and W/2 Sec. 21,
for depths below 3000' beneath
the surface,
T18S, R28E
Eddy County, New Mexico

Dear John:

As requested, enclosed for your information is a copy of our Limited Leasehold Title Opinion dated February 11, 1994 for the captioned Section 20. Regarding Section 21, we do not have a Title Opinion to date. However, our records indicate the following ARCO ownership:

W/2 Sec. 21 below 3000':

W/2NW/4: ARCO owns a 50% interest

Lease: State Lease E-1821-17

Lessee: J. C. Vandeventer

Lease Date: April 10, 1948

E/2NW/4: ARCO owns a 50% interest

Lease: State Lease 647

Lessee: Martin Yates, Jr.

Lease Date: November 14, 1922

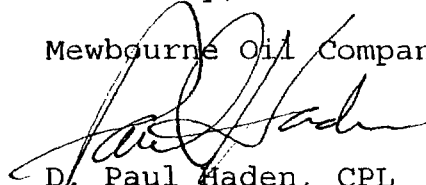
Should you require any further information in regard to the preparations of the Farmout Agreements, please advise.

ARCO Oil and Gas Company
March 8, 1994
Page 2

Your cooperation in connection with the above is greatly appreciated.

Sincerely,

Mewbourne Oil Company



D. Paul Haden, CPL
Landman

DPH/klc
Enclosure

3-3-94

Per Steve's conversation
with John, John confirmed
we would have a signed
farmout agreement prior
to the hearing.

3-2-94

Per Steve's conversation
with John, we should have
a signed agreement (format)
from Arco prior to the
hearing.

P.H. -

5

2-24-94

Per Steve's conversation
with John, we should have
a decision this week.

P.H.

2-17-94

Steve had breakfast
with John, discussed
our proposal.

Or

Sections 19, 20, 21

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

February 4, 1994

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Attn: Mr. John E. Lodge

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1
N/2, Sec. 20, T18S, R28E
Eddy County, New Mexico

Gentlemen:

Mewbourne Oil Company (Mewbourne) previously proposed the drilling of the captioned well on October 22, 1993 as amended by our letter dated January 24, 1994 and invited you to either participate in the drilling of the well or sell or farmout your interest to Mewbourne.

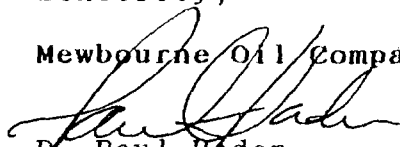
It has become evident through our communications with the interest owners in the proposed proration unit that we will be unable to reach a voluntary agreement with all of the parties involved. In order to drill the well in a timely manner and to honor various commitments we have made, please be advised we intend to file an application for pooling before the New Mexico Oil Conservation Division in approximately two (2) weeks.

Mewbourne desires to avoid the necessity of a pooling hearing, therefor we will continue with our efforts to reach a voluntary agreement with all interest owners. We respectfully request that you reconsider your position and assist us in avoiding the pooling of this unit.

Should you have any questions concerning this matter, please do not hesitate to call. We would be happy to arrange a meeting between our companies to discuss this issue at your convenience in the near future.

Sincerely,

Mewbourne Oil Company



D. Paul Haden
Landman

PH:jls

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

January 28, 1994

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Attn: Mr. John E. Lodge

Re: Chalk Bluff Draw Prospect
Sections 19, 20 & 21, T18S, R28E
Eddy County, New Mexico

Dear John:

Per our recent discussions, the purpose of this letter is to outline the general terms under which ARCO Oil and Gas Company (ARCO) will commit its interest in the captioned acreage to Mewbourne Oil Company (Mewbourne) for its continued development of said acreage.

Pursuant to the above, ARCO agrees that within thirty (30) days from receipt of a well proposal from Mewbourne, ARCO will commit its interest in the captioned land to Mewbourne by electing one of the following options:

- 1) Participate with Mewbourne in the drilling, testing and completion of the well to the full extent of its interest in the spacing unit allocated to such well. Our form of Joint Operating Agreement will be provided under separate cover.
- 2) Farmout all of its uncommitted interest to Mewbourne in the applicable Section by adding said interest to tract Number 3 of that certain Farmout Agreement dated March 1, 1992 as amended, by and between ARCO and Mewbourne.
- 3) Sell all of its uncommitted interest to Mewbourne in said Section on the basis of \$125.00 per net acre for a one (1) year term.

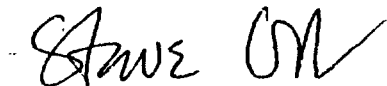
It is agreed that Mewbourne will not propose any well to ARCO until after the well completion form C-105 of a previous well subject to this agreement has been filed with the proper governmental authority having jurisdiction. It is further agreed that Mewbourne will not propose more than one well at a time as to acreage committed to this agreement.

Should the above properly express your understanding of our agreement, please so signify in the space provided and return an executed copy of this letter to the undersigned at your earliest convenience.

Your cooperation in this matter is greatly appreciated.

Sincerely,

MEWBOURNE OIL COMPANY

A handwritten signature in dark ink, appearing to read "Steve Cobb", with a stylized flourish at the end.

Steve Cobb
District Landman

DPH\SC:jls

ARCO OIL AND GAS COMPANY

By: _____

Title: _____

Date: _____

cc: Ken Waits

→ STEVE COBB CONTACTS

Re: ARCO INTEREST
SEC. 19, 20 & 21

Fri. - '21 lunch w/ John

Thurs. - '27 lunch w/ John

Fri. - '28 phone
contact w/ John

MEWBOURNE OIL COMPANY
FAX TRANSMITTAL COVER SHEET

DATE: 1-20-94

TO: JOHN LODGE

COMPANY: ARCO

FROM: PAUL HADEN

COMPANY: Mewbourne Oil Company - Midland

PAGES TO FOLLOW: 2

REMARKS: _____

If you have problems receiving this fax, please call (915) 682-3715.

Thanks!

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

January 20, 1994

CERTIFIED MAIL RETURN RECEIPT REQUESTED P175-142-706

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Attn: Mr. John Lodge

Fax# (915) 688-5250

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1
N/2 Sec. 20, T18S, R28E
Eddy County, New Mexico

Gentlemen:

For reference, Mewbourne Oil Company (Mewbourne), as Operator proposed the drilling of the captioned well at a location 660' FNL & 1115' FWL of the captioned Section 20. Mewbourne hereby amends the location of the captioned well to provide for the well to be drilled at a standard location 660' FNL & 1980' FWL of the captioned Section 20. The spacing unit for said well shall remain as originally proposed, being the N/2 of said Section 20.

Regarding the above, enclosed for your information and consideration is a copy of Mewbourne's AFE revised January 18, 1994. Should you have any questions regarding the above, please do not hesitate to call the undersigned.

Sincerely,



D. Paul Haden
Landman

DPH:jls

ICK POSTAGE ST
MAIL FEE AND
want this receipt
receipt attached
carrier (no extra
do not want this
the article, date
want a return rec
zip card, form 3
ce permits. Other
STED adjacent
want delivery to
RESTRICTED
less for the ser
apt is request
this receipt and

P 175 142 706



**Receipt for
Certified Mail**

No Insurance Coverage Provided

ARCO Oil and Gas Co.
Attn: John Lodge
P.O. Box 1610
Midland, TX 79702

Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing	

91

12-30-93

Per Steve Cobb ARCO
will be sending
letter agreement.

Jr.

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

December 16, 1993

ARCO Oil & Gas Company
P. O. Box 1610
Midland, Texas 79702
Attn: Mr. John Lodge

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
N/2 of Section 20-18S-28E
N/2 Proration Unit
Eddy County, New Mexico

Dear John,

This letter will confirm our recent conversations concerning ARCO Oil & Gas Company's (ARCO) interest under the captioned well.

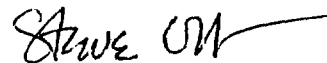
Within thirty days from receipt of the logs on the Mewbourne Oil Company (Mewbourne) Illinois Camp "17" State #2 well located in the E/2 of Section 17-18S-28E, Eddy County, New Mexico, ARCO agrees to elect one of the following options as to all of its interest in our proposed Illinois Camp "20" State #1 well:

- 1) Participate to the full extent of its interest in the drilling, testing and completion of the captioned well.
- 2) Farmout all of its interest to Mewbourne by adding the N/2 of Section 20-18S-28E to that certain Farmout Agreement dated March 1, 1992 by and between ARCO and Mewbourne to tract number 3 of said agreement.

If the above properly expresses your understanding of our agreement, please so signify by signing in the space provided and returning a copy of this letter to the undersigned at your earliest convenience.

Sincerely,

Mewbourne Oil Company



Steve Cobb
District Landman

SC/klc

ARCO Oil & Gas Company
December 16, 1993
Page 2

AGREED TO AND ACCEPTED this _____
day of _____, 199__.

ARCO Oil & Gas Company

By: _____

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

December 1, 1993

ARCO Oil and Gas Company
P.O. Box 1610
Midland, Texas 79702

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
Section 20, T18S, R28E
Eddy County, New Mexico

Attn: Mr. John Lodge

Dear Mr. Lodge:

Mewbourne Oil Company (Mewbourne) previously proposed the drilling of the captioned well on October 22, 1993 and invited you to either participate in the drilling of the well or sell or farmout your interest to Mewbourne.

It has become evident through our communications with the interest owners in the proposed proration unit that we will be unable to reach a voluntary agreement with all of the parties involved. In order to drill the well in a timely manner and to honor various commitments we have made, please be advised we intend to file an application for pooling before the New Mexico Oil Conservation Division in approximately two (2) weeks.

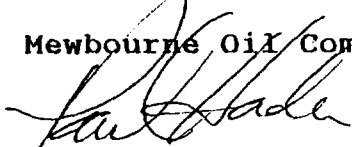
Mewbourne desires to avoid the necessity of a pooling hearing, therefore we will continue with our efforts to reach a voluntary agreement with all interest owners. We respectfully request that you reconsider your position and assist us in avoiding the pooling of this unit.

STICK-IT
MAIL
If you want to
find the
surrounding
address
3. If
refer
RE

Should you have any questions concerning this matter, please do not hesitate to call. We would be happy to arrange a meeting between our companies to discuss this issue at your convenience in the near future.

Sincerely,

Mewbourne Oil Company

A handwritten signature in dark ink, appearing to read "D. Paul Haden", written over the company name.

D. Paul Haden
Landman

PH:jls

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete Items 1 and/or 2 for additional services.
- Complete Items 3, 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

ARCO Oil and Gas Co.
Attn: Mr. John Lodge
MIO-30
P.O. Box 1610
Midland, TX 79702

4a. Article Number

080 146 870

4b. Service Type

- ☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

7. Date of Delivery

DEC - 3 1993

5. Signature (Addressee)

[Signature]

6. Signature (Agent)

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

PS Form 3811, December 1991 U.S.G.P.O.: 1992-307-530

ILLINOIS CAMP 20"

DOMESTIC RETURN RECEIPT

P 080 146 870



**Receipt for
Certified Mail**

No Insurance Coverage Provided

ARCO Oil and Gas Co.
Attn: Mr. John Lodge
MIO-30
P.O. Box 1610
Midland, TX 79702

Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark	

100, June 1991

Illinois 20

P 155 142 798



**Receipt for
Certified Mail**

No Insurance Coverage Provided
Do not use for International Mail
(See Reverse)

Sent to <i>McClellan & Sons Co.</i>	
Street and No. <i>P.O. Box 1610</i>	
P.O. State and ZIP Code <i>Madison, TX 79702</i>	
Postage <i>John Fudge</i>	
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date <i>PH</i>	

PS Form 3800, June 1991

Is your RETURN ADDRESS completed on the reverse side?

SENDER: <i>Minnesota</i> <ul style="list-style-type: none">• Complete items 1 and/or 2 for additional services.• Complete items 3, and 4b.• Print your name and address on the reverse of this form so that we can return this card to you.• Attach this form to the front of the mailpiece, or on the back if space does not permit.• Write "Return Receipt Requested" on the mailpiece below the article number.• The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: <i>Arco Oil & Gas Co. P.O. Box 1610 Midland TX 79702 Attn: John Lodge</i>		4a. Article Number <i>R955.142 798</i>	
5. Signature (Addressee) <i>[Signature]</i>		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
6. Signature (Agent)		7. Date of Delivery <i>NOV 12 1993</i>	
		8. Addressee's Address (Only if requested and fee is paid) <i>DH</i>	

Thank you for using Return Receipt Service.

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

November 10, 1993

Certified Mail - Return Receipt Requested P 155 142 798

ARCO Oil and Gas Company
P. O. Box 1610
Midland, Texas 79702

Attn: Mr. John Lodge

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
N/2 Sec. 20, T18S, R28E
Eddy County, New Mexico

Gentlemen:

Mewbourne Oil Company (Mewbourne) previously proposed the drilling of the captioned well on October 22, 1993 and invited you to either participate in the drilling of the well or sell or farmout your interest to Mewbourne.

It has become evident through our communications with the interest owners in the proposed proration unit that we will be unable to reach a voluntary agreement with all of the parties involved. In order to drill the well in a timely manner and to honor various commitments we have made, please be advised, we intend to file an application for pooling before the New Mexico Oil Conservation Division in approximately two (2) weeks.

Mewbourne desires to avoid the necessity of a pooling hearing, therefore we will continue with our efforts to reach a voluntary agreement with all interest owners. We respectfully request that you reconsider your position and assist us in avoiding the pooling of this unit.

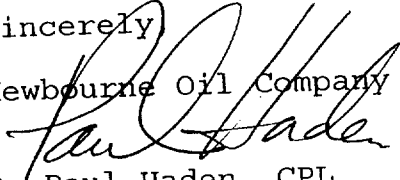
Should you have any questions concerning this matter, please do not hesitate to call. We would be happy to arrange a meeting between

ARCO Oil and Gas Company
November 10, 1993
Page 2

our companies to discuss this issue at your convenience in the near future.

Sincerely,

Mewbourne Oil Company


D. Paul Haden, CPL
Landman

Re: Arco interest
in Sec. 19 & 20,
T18S, R28E.

Per Steve Cobb's breakfast
meeting with John Lodge -
Arco will farmout its
interest in above land.
Arco is currently restructuring
their company.

P.H.

10-26-93

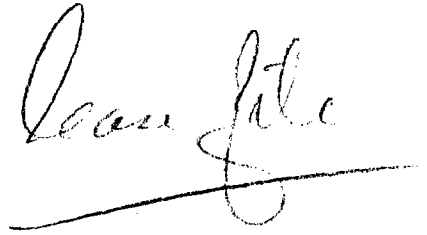
MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020

MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170



March 4, 1994

Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Term Assignment
T18S, R28E
Sec. 20: SW/4NE/4 and W/2 SE/4,
below 3000'
Sec. 29: NW/4NE/4 below 3000'
Eddy County, New Mexico

Dear Mrs. Nichols:

In reference to our phone conversation of March 3, 1994, enclosed for your consideration and execution is a revised Assignment of Operating Rights to Oil and Gas Lease covering the captioned land.

Regarding the above, I've added your land in Section 29 described above to the assignment as we discussed. Also, I've revised paragraph eight (8) of the agreement to reflect the warranty and indemnity language you desire.

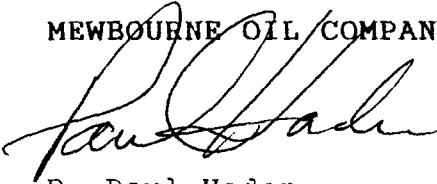
Except for the revisions referenced above, the enclosed agreement remains as originally written. At your early convenience, please execute the enclosed duplicate assignments, have them notarized, and forward one (1) of such executed agreements to me for further handling. Upon our receipt of same, I will have the agreement executed on behalf of Mewbourne Oil Company and recorded in the county records. When a recorded copy is available, I will forward you a copy for your files.

Regarding the upcoming pooling hearing on March 17, 1994, please don't be concerned with such hearing. The reason we named your husband's Estate for the hearing is because said Estate has not yet been probated in New Mexico and probably will not be by the time we are ready to drill our well. At such time as your husband's Estate is probated, we will dismiss the Estate's interest from forced pooling.

Should you have nay questions regarding the above or should you need any further help in regard to probating your husband's Estate in New Mexico, please call. Your cooperation in connection with this trade is greatly appreciated.

Sincerely,

MEWBOURNE OIL COMPANY

A handwritten signature in dark ink, appearing to read "D. Paul Haden", written over the company name.

D. Paul Haden
Landman

:enci

DPH:jls

Advised Mrs. Nichols
we were naming her husband's
estate at the pooling hearing
as the Estate wasn't
probated yet. Advised her
not to worry - it was
just a formality to name
the estate to protect us.

P.H.

3-1-94

Re: Sec. 20, 7185, 1228E

Phoned Mrs. Nichols
this date and advised
her I would be in
Dallas this morning
if she needed to see me
or should she have any
questions about our proposed
assignment. She advised me
a meeting was not necessary,
that she would execute and
return the assignment today.

P.H.

2-17-94

2-7-94

Follow up call. Mrs. Nichols
had her tooth pulled today.

She said she would sign
assignment in a few days.

She wanted to strike the
warranty provision, advised
that was ok with us.

P.H.

1-27-94 Follow up call
to Mrs. Nichols. She hasn't
had time to review the
proposed assignment as she
says she has a tooth ache.

P.H.

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

January 20, 1994

CERTIFIED MAIL RETURN RECEIPT REQUESTED P175-142-709

Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

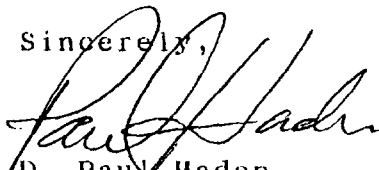
Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1
N/2 Sec. 20, T18S, R28E
Eddy County, New Mexico

Mrs. Nichols:

For reference, Mewbourne Oil Company (Mewbourne), as Operator proposed the drilling of the captioned well at a location 660' FNL & 1115' FWL of the captioned Section 20. Mewbourne hereby amends the location of the captioned well to provide for the well to be drilled at a standard location 660' FNL & 1980' FWL of the captioned Section 20. The spacing unit for said well shall remain as originally proposed, being the N/2 of said Section 20.

Regarding the above, enclosed for your information and consideration is a copy of Mewbourne's AFE revised January 18, 1994. Should you have any questions regarding the above, please do not hesitate to call the undersigned.

Sincerely,


D. Paul Maden
Landman

DPH:jls

P 175 142 709

Receipt for
Certified Mail

No Insurance Coverage Provided



Margaret B. Nichols
6900 Baltimore
Dallas, TX 75205

Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

1661 0000 0000 0000

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

January 19, 1994

Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1
Section 20, T18S, R28E
Eddy County, New Mexico

Dear Mrs. Nichols:

As discussed, our attorney estimates that it will cost \$600.00 for a Ancillary Probate Proceeding for your husband's Estate in New Mexico. This is if the Estate has already been probated in Texas.

In the event your husband's Estate is not probated in Texas first, it will cost you approximately \$2,500.00 for a Probate Proceeding in New Mexico.

Regarding the above, you requested some names of New Mexico licensed attorneys who could handle your husband's Estate in New Mexico. In this regard, I recommend that you use Allen G. Harvey, our attorney, as he is already familiar with the title to your husband's Estate under the captioned land notwithstanding the fact that he is an excellent attorney and will get the job done quickly. He also is licensed in Texas. You can reach him at the following address and phone number:

Stubbeman, McRae, Sealy, Laughlin &
Browder, Inc.
P. O. Box 1540
Midland, Texas 79702
(915) 688-0290

Regarding the above, it obviously will be more cost effective for you to have your husband's Estate probated in Texas first. As we plan to drill our well in the subject Section 20 at the earliest possible date, we request that you have your husband's Estate probated as soon as possible.

6211 W. NORTHWEST HWY.
Suite C253E
Dallas TX 75225

January 11, 1994

Mewbourne Oil Company
D. Paul Haden, Landman
500 W. Texas, Suite 1020
Midland, Texas 79701

RE: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
Section 20, T18S, R28E
Eddy County, New Mexico

Dear Sir:

In view of the prevailing agreement by which the U. S. Government receives 12.50% royalties on all land in New Mexico, I am restating my previous farmout agreement to you with the following change:

1. You agree to pay me a royalty interest of 14.50% of 100% of the lease, free of any and all burdens and claims.

All other terms remain the same, to wit:

2. I bear no responsibility as to other interests or claims.
3. I will not warranty any title expressed or implied.
4. I will grant a three year lease, unless it is held by commercial production of either oil or gas, or both.
5. Under no circumstances will I be responsible for the operating expenses of Mewbourne, expenses of a dry hole, or title search expenses.

Sincerely,


MARGARET B. NICHOLS

AGREED to and accepted this 11TH day of JANUARY, 1994.

BY: 
MEWBOURNE OIL COMPANY

BY: _____
MARGARET B. NICHOLS

MARGARET B. NICHOLS
6211 W. Northwest Hwy.
Suite C253E
Dallas TX 75225

JAN 17 1994

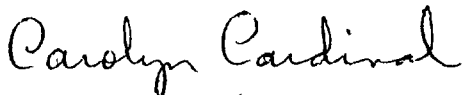
January 13, 1994

Paul Haden, Landman
Mewbourne Oil Company
500 W. Texas, Suite 1020
Midland, Texas 79701

Dear Paul:

Enclosed please find your copy of the letter from
Mrs. Nichols in which you agree to the terms of her
farmout agreement with Mewbourne Oil Company.

Sincerely,


Carolyn Cardinal
Accountant

120 ac. Sec. 20.

Re: Margaret Nichols

Met with Mrs. Nichols
this date regarding our
proposed term assignment.

Discussed the terms of
the assignment with her,
she's to review it ~~for~~ along
with her attorney. If approved
she'll sign and return.

P.H.

1-11-94

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

November 10, 1993

Unclaimed
Returned to us 12-28-93

Certified Mail - Return Receipt Requested P 155 142 799

Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
N/2 Sec. 20, T18S, R28E
Eddy County, New Mexico

Dear Mrs. Nichols:

Mewbourne Oil Company (Mewbourne) previously proposed the drilling of the captioned well on October 22, 1993 and invited you to either participate in the drilling of the well or sell or farmout your interest to Mewbourne.

It has become evident through our communications with the interest owners in the proposed proration unit that we will be unable to reach a voluntary agreement with all of the parties involved. In order to drill the well in a timely manner and to honor various commitments we have made, please be advised, we intend to file an application for pooling before the New Mexico Oil Conservation Division in approximately two (2) weeks.

Mewbourne desires to avoid the necessity of a pooling hearing, therefore we will continue with our efforts to reach a voluntary agreement with all interest owners. We respectfully request that you reconsider your position and assist us in avoiding the pooling of this unit.

Should you have any questions concerning this matter, please do not hesitate to call. We would be happy to arrange a meeting with you to discuss this issue at your convenience in the near future.

Sincerely,

Mewbourne Oil Company

[Signature]
D. Paul Haden, CPL
Landman

120 ac. Sec. 20

Per Mrs. Nichols —

She will give us
a 3 yr. term assignment,
no cash, deliver us
a 73% NRI. I TOLD
HER I WOULD ~~BE~~ COME
TO DALLAS AFTER
XMAS AND DISCUSS IT.

P.H.

12-22-93

Per Mrs. Nichols —
She would give us
an assignment reduce
the cash, & retain a
14.5% ORI.

PH.

12-13-93

P 546 946 563
 Jul "20" State #1
RECEIPT FOR CERTIFIED MAIL
 NO INSURANCE COVERAGE PROVIDED
 NOT FOR INTERNATIONAL MAIL
 (See Reverse)

U.S.G.P.O. 1985-234-555

PS Form 3800, June 1985

Sent to <i>Margaret B. Nichols</i>	
Street and No. <i>6900 Ballinore</i>	
P.O., State and ZIP Code <i>Dallas, Tx 75205</i>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

SENDER: • Complete items 1 and/or 2 for additional services. • Complete items 3, 4, 5 & 6. • Print your name and address on the reverse of this form so that we can return this card to you. • Attach this form to the front of the mailpiece, or on the back if space does not permit. • Write "Return Receipt Requested" on the mailpiece below the article number. • The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: <i>Mrs Margaret B. Nichols</i> <i>6900 Ballinore</i> <i>Dallas, TX</i> <i>75205</i>		4a. Article Number <i>546 946 563</i>	
4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise		7. Date of Delivery <i>12-4-93</i>	
5. Signature (Addressee) <i>Margaret B. Nichols</i>		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature (Agent)		Thank you for using Return Receipt Service.	
PS Form 3811, December 1991 • U.S.G.P.O. : 1992-307-530 DOMESTIC RETURN RECEIPT <i>ILLINOIS CAMP 20</i>			

Is your RETURN ADDRESS completed on the reverse side?

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020

MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

December 1, 1993

Mrs. Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
Section 20, T18S, R28E
Eddy County, New Mexico

Dear Mrs. Nichols:

Mewbourne Oil Company (Mewbourne) previously proposed the drilling of the captioned well on October 22, 1993 and invited you to either participate in the drilling of the well or sell or farmout your interest to Mewbourne.

It has become evident through our communications with the interest owners in the proposed proration unit that we will be unable to reach a voluntary agreement with all of the parties involved. In order to drill the well in a timely manner and to honor various commitments we have made, please be advised we intend to file an application for pooling before the New Mexico Oil Conservation Division in approximately two (2) weeks.

Mewbourne desires to avoid the necessity of a pooling hearing, therefore we will continue with our efforts to reach a voluntary agreement with all interest owners. We respectfully request that you reconsider your position and assist us in avoiding the pooling of this unit.

Should you have any questions concerning this matter, please do not hesitate to call. We would be happy to arrange a meeting between our companies to discuss this issue at your convenience in the near future.

Sincerely,

Mewbourne Oil Company

A handwritten signature in dark ink, appearing to read "D. Paul Haden", written over the printed name.

D. Paul Haden
Landman

PH:jls

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

November 19, 1993

Via Federal Express

Mrs. Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
N/2 Section 20-18S-R28E
Eddy County, New Mexico

Dear Mrs. Nichols,

Thank you for your letter of November 17, 1993 covering the captioned.

After careful review, we would be willing to accept the terms of your offer subject to the following amendments thereto:

1. As the lease is currently burdened by a 1/8th royalty or 12.50%, that leaves you with an 87.50% net revenue interest to begin with. We would request that you deliver an 81.25% net revenue interest to Mewbourne thereby retaining a 6.25% overriding royalty interest, which would equal a 3/16ths interest as stated in your letter.
2. Our offer is contingent upon approval of title.
3. Our agreement would provide for a 180 day continuous drilling option.
4. The bonus will be \$200.00 per acre.

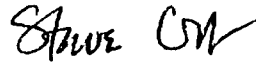
Our Mr. Paul Haden will be in contact with you in the near future to discuss this proposal and answer any questions you may have.

Mrs. Margaret B. Nichols
November 19, 1993
Page 2

We appreciate your efforts to reach an agreement in this matter and are looking forward to finalizing this trade in the near future.

Sincerely,

Mewbourne Oil Company

A handwritten signature in black ink, appearing to read "Steve Cobb", with a stylized flourish at the end.

Steve Cobb
District Landman

SC/klc

MARGARET B. NICHOLS
6900 Baltimore Drive
Dallas, Texas 75205

November 17, 1993

Mewbourne Oil Company
D. Paul Haden, Landman
500 W. Texas, Suite 1020
Midland, Texas 79701

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
Section 20, T18S, R28E
Eddy County, New Mexico

Dear Sir:

In reference to your letter of November 8, 1993, I have stated that I would propose a farmout agreement that would be consistent with what the average person would expect and that I would ask for the going rate which a royalty interest owner could expect to receive.

With respect to the acreage and title, I believe I hold between 120 and 160 acres, but will not be sure until you run the title. The title expenses will be your responsibility, not mine. I will not warranty a title expressed or implied.

I will grant a three year lease, unless it is held by commercial production of oil and gas, or both. I will not be responsible for the expenses of a dry hole or for any expenses in connection with your operation.

I am asking 3/16ths of 100% of this lease, which is what the average royalty holder gets. This 3/16ths will be given to me with no other burden or claim. Any and all claims on the production from this lease shall be your responsibility and none shall be held against the 3/16ths overriding royalty due to me.

Upon acceptance of the terms of this farmout, you will agree to pay me a lease bonus of \$250 per acre, to be paid in cash upon my signing this agreement.

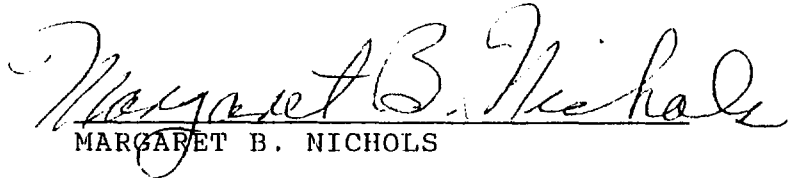
Under no conditions will I accept responsibility for drilling expenses or for the expenses of a dry hole. That risk is all yours.

The terms as described above and which are agreeable to me are as follows:

1. I bear no responsibility as to other interests or claims.
2. You agree to pay me a royalty interest of 3/16ths of 100% of this lease.
3. In consideration of my granting this lease, you agree to pay me, in cash, a lease bonus of \$250 per acre.
4. I will not warranty any title expressed or implied.

Please indicate your acceptance of the above terms by signing in the space provided and returning a duly executed copy of this letter to me. Upon receipt of said document, together with payment of the lease bonus, I will sign the agreement.

Sincerely,


MARGARET B. NICHOLS

AGREED to and accepted this _____ day of _____, 1993.

By: _____
MARGARET B. NICHOLS

By: _____
MEWBOURNE OIL COMPANY

WITNESS

WITNESS

6900 Baltimore Drive
Dallas, Texas 75205

November 17, 1993

214-361-0146

Mewbourne Oil Company
D. Paul Haden, Landman
500 W. Texas, Suite 1020
Midland, Texas 79701

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
Section 20, T18S, R28E
Eddy County, New Mexico

Dear Sir:

In reference to your letter of November 8, 1993, I have stated that I would propose a farmout agreement that would be consistent with what the average person would expect and that I would ask for the going rate which a royalty interest owner could expect to receive.

With respect to the acreage and title, I believe I hold between 120 and 160 acres, but will not be sure until you run the title. The title expenses will be your responsibility, not mine. I will not warranty a title expressed or implied.

I will grant a three year lease, unless it is held by commercial production of oil and gas, or both. I will not be responsible for the expenses of a dry hole or for any expenses in connection with your operation.

I am asking 3/16ths of 100% of this lease, which is what the average royalty holder gets. This 3/16ths will be given to me with no other burden or claim. Any and all claims on the production from this lease shall be your responsibility and none shall be held against the 3/16ths overriding royalty due to me.

Upon acceptance of the terms of this farmout, you will agree to pay me a lease bonus of \$250 per acre, to be paid in cash upon my signing this agreement.

Under no conditions will I accept responsibility for drilling expenses or for the expenses of a dry hole. That risk is all yours.

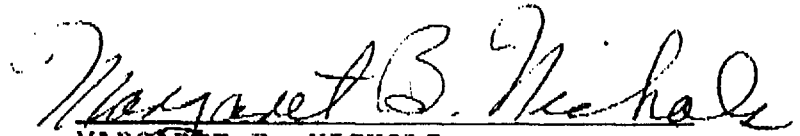
Page 2

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1. I bear no responsibility as to other interests or claims.
2. You agree to pay me a royalty interest of 3/16ths of 100% of this lease.
3. In consideration of my granting this lease, you agree to pay me, in cash, a lease bonus of \$250 per acre.
4. I will not warranty any title expressed or implied.

Please indicate your acceptance of the above terms by signing in the space provided and returning a duly executed copy of this letter to me. Upon receipt of said document, together with payment of the lease bonus, I will sign the agreement.

Sincerely,


MARGARET B. NICHOLS

AGREED to and accepted this _____ day of _____, 1993.

By: _____
MARGARET B. NICHOLS

By: _____
MEWHOURNE OIL COMPANY

WITNESS

WITNESS

Muncie 20

P 15- 142 799



**Receipt for
Certified Mail**

No Insurance Coverage Provided
Do not use for International Mail
(See Reverse)

Sent to	
<i>Margaret B. Nichols</i>	
Street and No.	
<i>6708 Baltimore</i>	
P.O., State and ZIP Code	
<i>Dallas Tx 75205</i>	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
<i>PH</i>	

PS Form 3800, June 1991

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170
November 10, 1993

Certified Mail - Return Receipt Requested P 155 142 799

Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
N/2 Sec. 20, T18S, R28E
Eddy County, New Mexico

Dear Mrs. Nichols:

Mewbourne Oil Company (Mewbourne) previously proposed the drilling of the captioned well on October 22, 1993 and invited you to either participate in the drilling of the well or sell or farmout your interest to Mewbourne.

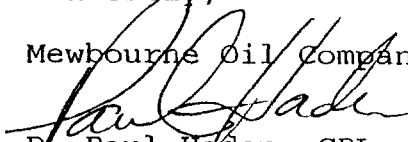
It has become evident through our communications with the interest owners in the proposed proration unit that we will be unable to reach a voluntary agreement with all of the parties involved. In order to drill the well in a timely manner and to honor various commitments we have made, please be advised, we intend to file an application for pooling before the New Mexico Oil Conservation Division in approximately two (2) weeks.

Mewbourne desires to avoid the necessity of a pooling hearing, therefore we will continue with our efforts to reach a voluntary agreement with all interest owners. We respectfully request that you reconsider your position and assist us in avoiding the pooling of this unit.

Should you have any questions concerning this matter, please do not hesitate to call. We would be happy to arrange a meeting with you to discuss this issue at your convenience in the near future.

Sincerely,

Mewbourne Oil Company



D. Paul Haden, CPL
Landman

10 _____
 Date _____ Time _____
 WHILE YOU WERE OUT
 Per Margaret Nichols
 Phone _____
 Area Code _____
 Time _____
 PLEASE CALL
 SHE IS NOT INTERESTED
 CALLED TO SEE YOU
 URGENT
 WAYS TO SEE YOU
 in me meeting with her
 in Dallas to discuss our
 proposal. She simply is not
 interested in negotiating a trade
 at this time probably after
 X-mas P.H. 11-8-93

ILLEGIBLE

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

November 8, 1993

Margaret B. Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
T18S, R28E
Section 20: SW/4NE/4 and W/2SE/4
below a depth of 3000'
Eddy County, New Mexico

Dear Mrs. Nichols:

This is in follow up of our recent phone conversation regarding your interest in the captioned land and our proposed Morrow test well to be drilled to a depth of approximately 10,600'. For reference, Mewbourne Oil Company previously offered to purchase your interest in the captioned 120 acre tract of land or alternatively we offered to acquire your interest by farmout or if you desired, you could join Mewbourne in drilling Mewbourne's proposed well to the extent of your interest in the spacing unit dedicated to the well (the N/2 of the captioned Section 20).

You advised me that you were not interested in selling your interest to Mewbourne, nor were you interested in farming your interest out to Mewbourne nor were you interested in participating with Mewbourne in the drilling of the proposed well.

As we discussed, in the event you do not elect to choose any of the above offered three (3) options, your interest in the spacing unit of the proposed well would be subject to forced pooling under the rules and regulations administered by the New Mexico Oil Conservation Division (the "Division") in Santa Fe, New Mexico.

In the event your interest is forced pooled, you would not receive any monetary benefit until such time as Mewbourne recovered its total investment in the drilling and completion of the well and operation charges. Furthermore, the Division would allow us to recover an additional 200% of such well and operations costs as a risk penalty against you as to your proportionate interest in the drilling unit associated with the well. At such time as we recover the 300% of the well and operational costs associated with the proposed well, you will become a working interest owner. When

Margaret B. Nichols
November 8, 1993
Page 2

and if such event occurs, you will be obligated to pay your proportionate part of the expenses associated with such well including plugging and abandonment costs when the well is no longer economical to continue to produce. Generally speaking, all we hope to get out of a well is a 3 to 1 return on investment which corresponds with the 300% penalty assessed against you as to your proportionate interest in the well.

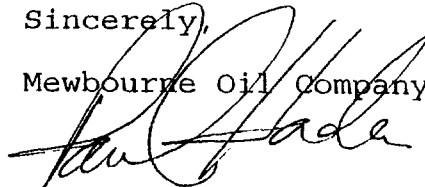
Regarding the above, I am requesting you to reconsider your position regarding our well proposal. In light of the fact that you have indicated that you do not wish to participate in this well, we ask that you either sell or farmout your interest to Mewbourne as previously offered.

Time is of the essence in this matter as we will be filing an application for compulsory pooling within the next thirty (30) days. As we would like to avoid the necessity of having to compulsory pool the above land, we would appreciate receiving a written commitment from you prior to December 1, 1993. As I have discussed with you previously, I would be glad to meet with you anytime to discuss our proposal.

Your kind consideration regarding this matter is greatly appreciated.

Sincerely,

Mewbourne Oil Company

A handwritten signature in dark ink, appearing to read "D. Paul Haden", is written over the company name.

D. Paul Haden, CPL
Landman

DPH/klc

Margaret Nichols —

Her husband died this summer, she's trying to ~~see~~ administer his estate. She doesn't want to make any decisions right now. I advised her of packing. She's to talk with someone Thursday. I'm to call her Monday to set up an appointment.

P.H.

11-1-93

Charles G. ...

SENDER:

Complete items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100.

1. Complete item 1
2. Complete item 2
3. Print your name and address
4. Attach this form to the package
5. Write "Return Receipt" on the package
6. The Return Receipt fee will be charged to the sender
7. to and the date of delivery

3. Article Addressed to:
Leonard ...
6900 ...
Dallas ...

5. Signature (Addressee)
[Signature]

6. Signature (Agent)
[Signature]

7. Address (Addressee)
[Address]

8. Address (Agent)
[Address]

9. Address (Postmaster)
[Address]

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PS Form 3811 / November 1990

DOMESTIC RETURN RECEIPT

ILLEGIBLE

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020

MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

October 22, 1993

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Leonard and Margaret Nichols
6900 Baltimore
Dallas, Texas 75205

Re: Chalk Bluff Draw Prospect
Illinois Camp "20" State #1 Well
Section 20, T18S, R28E
Eddy County, New Mexico

Ladies and Gentlemen:

Subject to final management approval, Mewbourne Oil Company (Mewbourne) hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation, anticipated total depth being 10,600'. Furthermore, Mewbourne shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The N/2 of the captioned Section 20 will be dedicated as the proration unit for the well.

This well will be located approximately 660' FNL & 1115' FWL of Section 20, T18S, R28E, Eddy County, New Mexico. Our AFE dated October 20, 1993 is enclosed for your review. Should you desire to participate to the full extent of your interest in the drilling, testing and completion of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

Upon receipt of your executed AFE or by prior written request we will forward our Joint Operating Agreement for your review and execution.

In the event you do not wish to participate, Mewbourne respectfully requests you elect one of the following options as to your interest:

- 1) Farmout all of your interest in Section 20 for a period of 180 days to Mewbourne under the following general terms:

Leonard and Margaret Nichols
October 22, 1993
Page 2

- (A) If any well drilled, deepened, completed or recompleted under the terms of our farmout agreement results in oil and/or gas production on a proration unit that includes your acreage, Mewbourne will earn an assignment of 100% of your rights and interest, free of any liens or encumbrances, in the proration unit assigned to each well to a depth of 100' below the total depth drilled for each well.
- (B) Upon completion of the initial test well as a producer or dry hole, Mewbourne would have the recurring option, but not the obligation, to commence additional wells on New Mexico Oil Conservation Division approved proration units that include your acreage to establish oil and/or gas production under the captioned lands. If any such option is exercised by Mewbourne, Mewbourne agrees to allow not more than 180 days to elapse between the completion of one well and the commencement of operations for any next well.
- (C) You will retain an overriding royalty interest equal to the difference, if any, between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burdens or lawful claims upon production to which your leases may be currently subject, so that Mewbourne will be assigned a 75% net revenue interest in your lease(s). Such overriding royalty interest retained by you shall be subject to proportionate reduction.
- (D) Upon acceptance of our farmout proposal you agree to furnish at no cost to Mewbourne, title information such as copies of the leases covering the captioned lands, title opinions currently in your possession, title curative, letter agreements and any contracts currently in effect, etc.

Should the above general terms be acceptable to you our formal Farmout Agreement will be provided under separate cover.

- 2) Sell all of your right, title and interest in this Section subject to title approval, for \$250.00 per net acre delivering an 87.5% net revenue interest to Mewbourne.

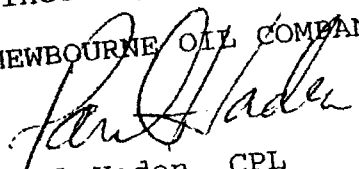
As we anticipate drilling the captioned well in the first quarter of 1994 your earliest response to this proposal would be greatly appreciated.

Leonard and Margaret Nichols
October 22, 1993
Page 3

Should you have any questions, please do not hesitate to call.

Sincerely,

MEWBOURNE OIL COMPANY


Paul Haden, CPL
Landman

PH/klc

Sent to	
Street and No.	
6900 Baltimore	
City, State and ZIP Code	
Dallas TX 75205	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	

Receipt for Certified Mail
 No Insurance Coverage Provided
 Do not use for International Mail
 (See Reverse)

P 155 142 857

SENDER:

- Complete items 1 through 5
- Print your name and address
- Attach this form to the back of the mail piece
- Write Return Receipt (see instructions on back of form)
- The Return Receipt is valid only if the mail is delivered to the addressee on and the date of delivery

3. Article Addressed to

6900 Baltimore

Dallas TX 75205

Signature (Addressee)

Signature (Agent)

PS Form 381, November 1980

DOMESTIC RETURN RECEIPT

1. Also attach to receipt the following (for International Mail):

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ILLEGIBLE

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

October 20, 1993

Certified Mail - Return Receipt Requested P 155 142 857

Leonard and Margaret Nichols
6900 Baltimore
Dallas, Texas 75205

Re: State Lease 647
Chalk Bluff Draw Prospect
T18S, R28E
Section 20: SW/4NE/4 and
W/2SE/4 below the base of
the San Andres formation
Eddy County, New Mexico

Dear Mr. & Mrs. Nichols:

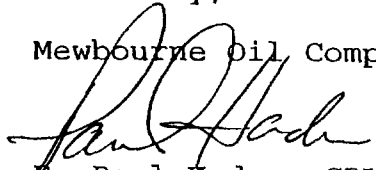
To date, we have not received a response from you regarding our offer to purchase your interest under the captioned land as referenced in our letter dated September 23, 1993 (see copy enclosed).

In the event you are not interested in selling your interest under the terms offered by Mewbourne, please advise the undersigned as to the terms that would be acceptable to you. Alternatively, Mewbourne would be interested in acquiring a farmout of your rights on mutually acceptable terms wherein you would deliver Mewbourne a 75% net revenue interest in your lease.

Regarding the above, please call the undersigned at your early convenience. Your cooperation in connection with the above land will be greatly appreciated.

Sincerely,

Mewbourne Oil Company


D. Paul Haden, CPL
Landman

DPH/klc

MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

September 23, 1993

Leonard and Margaret
B. Nichols
1700 Commerce, Suite 1005
Dallas, Texas 75201

Re: State Lease 647
Chalk Bluff Draw Prospect
T18S, R28E
Section 20: SW/4NE/4 and W/2SE/4
below the base of the San Andres
formation
Eddy County, New Mexico

Dear Mr. and Mrs. Nichols:

Mewbourne Oil Company (Mewbourne) desires to consolidate its interest in those areas in which it conducts operations.

Records available to us indicate you own 120 net acres under the captioned lands with a 87.5% net revenue interest.

Mewbourne hereby offers you \$150.00 per acre for all of your right, title and interest in the captioned lands and depths subject to the following general terms;

1. Leonard Nichols and wife, Margaret B. Nichols (Nichols) to deliver a 100% working interest and a 87.5% net revenue interest to Mewbourne.
2. Nichols agrees to furnish to Mewbourne free of any cost whatsoever, copies of all records and files in their possession covering the captioned lands.
3. This offer is contingent upon Mewbourne's approval of title and form of Assignment.
4. The effective date of this sale will be October 1, 1993.
5. Nichols agrees to convey its interest in the captioned lands to Mewbourne free and clear of all liens, mortgages or encumbrances whatsoever.

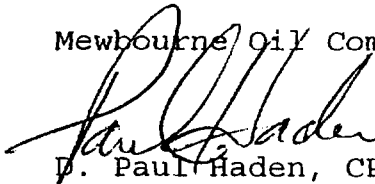
Leonard and Margaret
B. Nichols
September 23, 1993
Page 2

Should the above terms meet with your approval, please so signify by signing in the space provided and return an executed copy of this letter to the undersigned within thirty days from receipt.

Failure to respond within thirty days shall render this offer voidable at Mewbourne's sole discretion.

Sincerely,

Mewbourne Oil Company


D. Paul Haden, CPL
Landman

DPH/klb

AGREED to and accepted this _____ day of _____, 1993.

By: _____

Leonard Nichols

Margaret B. Nichols

**BEFORE THE
OIL CONSERVATION DIVISION**
Santa Fe, New Mexico

Case No. 10944 Exhibit No. 3

Submitted by: Mewbourne Oil Company

Hearing Date: March 17, 1994