

TERM ASSIGNMENT OF OIL AND GAS LEASE

KNOW ALL MEN BY THESE PRESENTS that **SOUTHWESTERN ENERGY PRODUCTION COMPANY**, whose address is 2350 N. Sam Houston Parkway East, Suite 300, Houston, Texas 77032 (hereinafter called "Assignor") for and in consideration of Ten Dollars (\$10.00) and other valuable consideration paid, does hereby, for the term hereinafter stated and subject to all of the terms, conditions and covenants contained herein, grant, convey, sell, assign and transfer unto **NEARBURG EXPLORATION COMPANY, L.L.C.**, whose address is 3300 North "A" Street, Building 2, Suite 120, Midland, Texas 79705 (hereinafter called "Assignee") one-hundred percent (100%) of Assignor's interest in and to the following described lease (hereinafter referred to as the "Subject Lease"):

New Mexico State Lease ST NM E-1923 dated June 10, 1948, from the New Mexico Commissioner of Public Lands as Lessor, to Phillips Petroleum Company, as Lessee. **INSOFAR AND ONLY INSOFAR** as said lease covers the following lands in Eddy County, New Mexico:

Section 14, Township-21-South, Range 34-East, NMPM
N/2

1. (a.) The term of this Assignment shall be for a period of two (2) years from the date of Assignor's execution hereof (as shown in the acknowledgement of Assignor's execution), and so long thereafter as oil and/or gas is produced in paying quantities or is capable of being produced in paying quantities from the Subject Lease and land assigned herein or from lands pooled, communitized or unitized therewith, and the Subject Lease is being properly maintained. .

(b.) If at the end of the two (2) year primary term of this Term Assignment, production of oil and/or gas has been obtained on the Subject Lease and land assigned herein or from lands pooled, communitized or unitized therewith, Assignee shall thereafter continuously develop the Subject Lease and land assigned herein with no cessation of over one hundred twenty (120) consecutive days from the completion of one well and the commencement of drilling operations on the next well and with no cessation of drilling operations on any well for over thirty (30) consecutive days. Where no drilling operations are being conducted on the Subject Lease and land assigned herein, or on lands pooled, communitized or unitized therewith, at the end of the primary term (production having been previously obtained) the first such continuous development well shall be actually commenced within one hundred twenty (120) days of the end of the two (2) year primary term. If, however, at the end of the two (2) year primary term no oil or gas is being produced on the Subject Lease and land assigned herein, or on lands pooled, communitized or unitized therewith, but Assignee is then engaged in drilling operations thereon, this Assignment shall not terminate so long as drilling operations are continuously prosecuted on such well with no cessation of over thirty (30) consecutive days, and thereafter so long as oil and/or gas is produced in paying quantities on the Subject Lease and land assigned herein, or on lands pooled, communitized or unitized therewith, or as long as such lands are continuously developed as provided above.

(c.) In the event Assignee properly makes any shut-in gas royalty payment or minimum royalty payment due under the terms of the Subject Lease and attributable to the interest assigned and described above, this Assignment shall be maintained as if there was production in paying quantities from the lands described above for the period prescribed by the lease shut-in or minimum royalty provisions.
2. Assignor excepts and reserves from the Subject Lease and land assigned herein an overriding royalty interest, an undivided percentage interest equal to the difference between all presently existing lease burdens and twenty-two percent (22%) of all oil, gas and associated hydrocarbons produced and saved from the interest and the lands assigned herein pursuant to the terms and provisions of the Subject Lease. Assignor's overriding royalty is to be free and clear of all costs, charges, and expenses, but will be subject to a proportionate part of any and all applicable taxes. Said overriding royalty shall extend to any renewal(s) extension(s), or top lease(s) thereon that may be taken or become owned by Assignee within six (6) months after the surrender, termination, or expiration of such lease(s) insofar as such renewal(s), extension(s), or top lease(s) apply to the above-described land.
3. Assignor grants Assignee, insofar as Assignor has the right to do so and subject always to the terms and conditions of the Subject Lease herein assigned, the right to pool, communitize or unitize said lease with other leases or lands, and in the event any lease assigned herein is pooled, communitized or unitized with other leases or lands for production, the overriding royalty reserved herein shall, as to the lands covered by this Assignment and so pooled, communitized or unitized, be paid to Assignor in the proportion that the number of acres assigned herein and so pooled, communitized or unitized bears to the total number of acres in such unit.
4. During the term hereof, Assignor and Assignee, and their respective heirs, assigns and successors in interest, shall, for the purposes of drilling and/or production from the respective interests owned by each in the Subject Lease, have all rights granted by said lease as incident to

- or for the purpose of exploring, drilling for, mining, producing and marketing oil, gas and other hydrocarbons. The rights of each in this connection shall be equal, mutual and concurrent and each of them shall exercise such rights with due regard for the rights of the other. Neither party shall do or perform any act which might cause said lease to be forfeited or canceled.
5. The operations in and upon the Subject Lease by Assignor and Assignee shall be the separate operation of the party conducting the same and shall be at the sole risk and cost and under the exclusive control of that party, and each shall indemnify the other against all claims for damages of every kind to persons or property arising out of or in connection with such operations.
 6. If the Subject Lease covers less than a full oil and gas leasehold estate in any lands described herein under said lease, or if Assignor's interest in such lease covering any lands described herein under such lease is less than the full oil and gas leasehold estate (excluding and disregarding any applicable royalty, overriding royalty, production payment or other burden to which such leasehold estate is subject), then the overriding royalty reserved out of the production from the lands in which Assignor's interest is less than the full oil and gas leasehold estate in such lands herein described under such leases shall be payable in the proportion that Assignor's interest in the Subject Lease bears to the full oil and gas leasehold estate in such lands.
 7. In the event Assignee desires to surrender the Subject Lease as to all or any part of the said lands covered thereby or to allow said lease to terminate or expire, Assignee shall notify Assignor at least sixty (60) days in advance of the anniversary date specified in any such lease (or the date to be surrendered, if other than the anniversary date) and Assignor shall have fifteen (15) days after receipt of such notice within which to give notice of its election to take a reassignment of any such lease as to the portion thereof to be relinquished or to be allowed either to expire or terminate. Should Assignor elect to receive a reassignment, it shall be delivered by Assignee not less than fifteen (15) days prior to the anniversary date of any such lease (or proposed date of surrender). Any reassignment under the terms hereof shall be free of cost to Assignor and shall be free and clear of all liens and encumbrances created by, through or under Assignee.
 8. This Assignment is made subject to, and Assignee shall comply with, all applicable rules, regulations, laws and orders issued or promulgated by any court or governmental agency having jurisdiction over operation, production or marketing on and from the lands covered thereby.
 9. Assignor agrees, upon written request, to furnish Assignee copies of the Subject Lease and all material title information in its possession. Assignor shall neither be liable for any inaccuracy or incompleteness of any title information furnished to Assignee nor does Assignor warrant title, either express or implied, to said lease. Assignee agrees, upon request, to provide Assignor a copy of any title opinions or other title information in its possession without cost or expense to Assignor.
 10. Assignee agrees, as a covenant of this assignment, to provide the information and perform those services outlined in Exhibit "A" attached to this agreement and made a part hereof.
 11. All notices authorized or required between Assignee and Assignor by any of the provisions of this Assignment shall, unless otherwise specifically provided, be given in writing by United States mail, commercial overnight delivery service, electronic facsimile transmission, or Western Union telegram, properly addressed with postage or charges prepaid, and addressed to Assignor, unless otherwise specifically provided, and to Assignee at the addresses first set forth above to the attention of Land Department, unless Assignee, or any successor in interest to Assignee, has designated or notified Assignor in writing of another address. The originating notice to be given under any provision of this Assignment shall be deemed given only when received by the party to whom such notice is directed. The time for such receiving party to give any notice in response thereto shall begin to run on the day following the date the originating notice is received, and responsive notice shall be deemed given when transmitted, when deposited in the United States mail or with a commercial overnight delivery service, or with the Western Union Telegraph Company properly addressed and with postage or charges prepaid. Any notice delivered by electronic facsimile transmission shall be effective upon receipt by the addressee.
 12. Assignee shall keep the Subject Lease free and clear from all liens. Assignee shall defend, indemnify and save Assignor harmless from all loss, cost, or expense (including attorney's fees) for Assignee's failure to do so.
 13. Subject to Paragraphs 1 a., b., and c. hereof, at the end of the initial two (2) year term hereof, all of the lands described above that are not attributed to a unit for production for a well completed as a well capable of producing oil and/or gas in paying quantities shall automatically revert to Assignor. In addition, as to all of the lands described above that are included in a producing proration unit, all rights below the base of the deepest producing formation in each proration unit shall also automatically revert to Assignor. Notwithstanding the automatic character of such reversion, Assignee shall prepare a recordable reassignment covering such reversionary lands and provide it to Assignor within thirty (30) days of the expiration of said two (2) year term, or within thirty (30) days of such later termination if extended under the terms of Paragraphs 1 a. b. or c. Unless specifically provided herein to the contrary, termination of this assignment and Assignee's estate in the Subject Lease or lands, or any part thereof, shall not relieve Assignee of their obligation to properly plug and abandon any well drilled under this Assignment located on the

said lands and clean and restore the surface as required by any applicable law, ordinance, rule, or regulation then in existence unless Assignor has agreed to take over the well, in which case it shall properly plug and abandon such well and clean and restore the surface as required by applicable law, ordinance, rule or regulation then in existence. Further, Assignee's obligations of defense and indemnification shall survive any such termination.

14. This Assignment is made expressly subject to that certain Operating Agreement dated May 11, 2000, by and between Southwestern Energy Production Company and Phillips Petroleum Company, and furthermore Assignee shall be responsible for obtaining any consents or waivers required under any provisions in said agreement which limit conveyance or assignment of Assignor's interest in the Subject Lease.
15. For the purposes of this Assignment, the following definitions and/or interpretations shall apply:

(a.) A completion has occurred when (1.) a well has been fully equipped for the taking of production, through and including the tanks for an oil well and through and including the christmas tree for a gas well, (2.) a well has been plugged and abandoned after being drilled to contract depth, if a dry hole, or (3.) thirty (30) days lapse after a well reaches total depth, whichever is the earlier date.

(b.) Paying quantities means a quantity (in the judgment of a reasonable and prudent operator) of oil (including any gaseous hydrocarbons produced with oil) and/or gas (including any liquid hydrocarbon produced with gas) sufficient (not considering the cost of drilling, testing, completing and equipping) to repay, with a reasonable profit, the cost of operations.

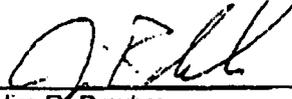
TO HAVE AND TO HOLD the same unto the said Assignee, their successors and assigns, subject to and according to the terms and conditions hereof and of said lease, the said Assignee to perform all of such terms and conditions. This Assignment is made without warranty of title either express or implied.

The reservations herein made and the provisions and covenants contained herein shall attach to and run with the lease or leases assigned and the lands herein described or referred to and shall be binding upon and inure to the benefit of Assignor and Assignee and their respective successors and assigns.

IN WITNESS WHEREOF, the said SOUTHWESTERN ENERGY PRODUCTION COMPANY, as Assignor, has executed this instrument this 1st day of June, 2004.

ASSIGNOR:

SOUTHWESTERN ENERGY PRODUCTION COMPANY

By: 
Jim R. Dewbre
Vice President - Land

ASSIGNEE:

NEARBURG EXPLORATION COMPANY, L.L.C.

By: 

Name: Robert G. Shelton

Attorney-in-Fact

Title: _____

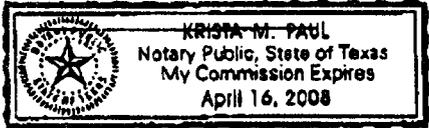
ACKNOWLEDGMENTS

STATE OF TEXAS §
§
COUNTY OF HARRIS §

Before me, the undersigned, a Notary Public in and for said State, on this day personally appeared Jim R. Dewbre known to me to be the identical person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that he is the Vice President - Land of the said SOUTHWESTERN ENERGY PRODUCTION COMPANY, an Arkansas corporation, and that he has executed the same as the act of such corporation for the purpose and consideration therein expressed, and in the capacity therein stated.

Given under my hand and seal of office this 1st day of June, 2004.

My Commission Expires:



Krista M. Paul
Notary Public

THE STATE OF TEXAS

COUNTY OF MIDLAND

§
§
§

Before me, the undersigned, a Notary Public in and for said State, on this day personally appeared Robert G. Shelton known to me to be the identical person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that he is the Attorney-in-Fact of the said Nearburg Exploration Company, L.L.C., and that he has executed the same as the act of such corporation for the purpose and consideration therein expressed, and in the capacity therein stated. a Texas limited liability company, on behalf of said company.

Given under my hand and seal of office this 10th day of June, 2004.

My Commission Expires:
5-25-08

Dixie D. Walton
Notary Public

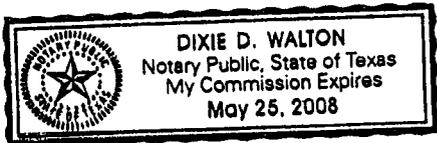


EXHIBIT "A"

Attached to and made a part of that certain Term Assignment dated June 1, 2004 from Southwestern Energy Production Company to Nearburg Exploration Company, L.L.C.



**Southwestern Energy
Production Company**
A subsidiary of Southwestern Energy Company

2350 N. Sam Houston Parkway East
Suite 300
Houston, Texas 77032
(281) 618-4700 Fax: (281) 618-4757

REQUEST FOR INFORMATION

In anticipation of the commencement of drilling operations on the:

OPERATOR: Nearburg Exploration Company
WELL NAME: N/A
LOCATION: Section 14-T21S-R34E
COUNTY AND STATE: Eddy County, New Mexico

Southwestern Energy Production Company respectfully requests the following:

1. That we be furnished complete drilling and completion reports on a daily basis by facsimile to our Houston office (281) 618-4758 by 8:00 A.M. CST; or, alternatively sent via e-mail to houlogs@swnc.com.
2. That we be given sufficient notice prior to running any drill-stem test, coring, logging, or completing operations so that we may have a representative present at such test or operation if we so desire. Such notification should be made to:

SOUTHWESTERN ENERGY PRODUCTION COMPANY

For Logging: Fax (281) 618-4756

GEOLOGIST	OFFICE TELEPHONE	HOME TELEPHONE
Bruce Elijah	(281) 618-4701	(281) 890-3567
Alan Clemens	(281) 618-4722	(281) 580-3391

For drillstem tests, coring, plugging and abandonment or any notification except logging:

ENGINEERS	OFFICE TELEPHONE	HOME TELEPHONE
Jim Tully	(281) 618-4720	(281) 292-3252
Alan Stubblefield	(281) 618-4721	(281) 355-9951

For Land: Fax (281) 618-4757

LANDMAN	OFFICE TELEPHONE	HOME TELEPHONE
Jody Crook	(281) 618-4879	(281) 807-4137
Jim Dewbre	(281) 618-4711	(409) 273-6697

3. That prior to commencement of drilling operations, Southwestern Energy Production Company be supplied with the name(s) and phone number(s) of a company representative(s) to whom we should address any inquiries.
4. That the indicated number of copies of the information listed below be sent to Southwestern Energy Production Company, 2350 N. Sam Houston Parkway East, Suite 300, Houston, Texas 77032, as soon as it becomes available to the attention of Matt Williams.
 - 2 field copies and 2 final copies of all logs and/or surveys of any type. (1 copy via fax from the wellsite)
 - 2 field (daily) prints and 2 final prints of all Mud Logs.
 - 2 Copies of all DST charts (w/evaluations), open flow tests and BHP survey.
 - 2 Copies of all Core and Fluid Analysis.
 - 2 Copies of all Drillers and Drilling Time Logs.
 - 2 Copies of all survey plats and elevations.
 - 2 Copies of all forms required by any State or Federal Regulatory Body.
 - 2 Copies of all well reports and sample descriptions. (such as are commonly furnished by consulting well-site Geologists).
 - 1 final copy of all open hole logs on 3 1/2" diskette in LAS format.
 - 1 copy of proposed prognosis/procedure to drill the subject well.
 - 1 fax copy of mud logs daily.