

# MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(432) 682-3715  
FAX (432) 685-4170

November 1, 2007

Enerlex, Inc.  
18452 E. 111<sup>th</sup> Street  
Broken Arrow, OK 74011  
Attn: Mr. Steven Snead

Re: Term Assignment  
Township 19 South, Range 35 East  
Section 22: W/2SW/4 and W/2SE/4  
Section 27: E/2NE/4, NW/4NE/4, E/2NW/4, SE/4  
Lea County, New Mexico  
PEARL WEST PROSPECT


Dear Mr. Snead:

Per our conversations yesterday, enclosed for your execution are duplicate original Term Assignments covering Enerlex, Inc.'s 16.666666% leasehold interest in the referenced lands. As we discussed, once you have obtained the necessary curative concerning your previous assignment to Castle Royalties, Inc. as detailed in the title opinion previously provided to you, we can close on this trade. Let me know when you have obtained the necessary curative and I will order a check payable to Enerlex, Inc. in the amount of \$21,666.67 being the agreed to bonus payment based upon \$250.00 per net leasehold acre ( $16.666666\% \times 520 = 86.666666$  net acres  $\times \$250.00 = \$21,666.67$ ).

Thanks again for your cooperation in the matter. Call me if you have any questions. My phone number is (432) 682-3715.

Sincerely,

MEWBOURNE OIL COMPANY



Steven J. Smith  
Senior Landman

Oil Conservation Division  
Case No. \_\_\_\_\_  
Exhibit No. 3

# MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(432) 682-3715  
FAX (432) 685-4170

September 26, 2007

Certified Mail-Return Receipt No. 5569

Certified Mail-Return Receipt No. 5576

Castle Royalties LLC  
15601 N. Dallas Parkway, Suite 900  
Addison, Texas 75001  
Attn: Mr. Mike Donovan

Enerlex, Inc.  
18452 E. 111<sup>th</sup> Street  
Broken Arrow, Oklahoma 74011  
Attn: Mr. Steve Snead

Re: Proposed Bone Spring Test  
Sparrow "27" State #1  
1,650' FNL & 1,980' FWL of Section 27  
Township 19 South, Range 35 East  
Lea County, New Mexico  
SPARROW PROSPECT

Gentlemen:

Mewbourne Oil Company hereby proposes drilling a 10,850' Bone Spring test at a location 1,650' FNL and 1,980' FWL of Section 27, T19S, R35E, Lea County, New Mexico to be called the Sparrow "27" State #1 well. Based upon our most current title information, either Castle Royalties LLC (Castle) or Enerlex, Inc. (Enerlex) own an undivided 1/6<sup>th</sup> interest in the lease that covers the SE/4NW/4 of said Section 27 (the anticipated spacing unit for the proposed well). Because of ambiguity in the conveyance from Enerlex into Castle (copy attached), we are unable to determine with certainty whether Enerlex conveyed its entire interest in the leases described or just its interest in overriding royalties and other similar interests. As a result, it is necessary to propose this well to both of you. In order to resolve the ambiguity, it will be necessary for both Castle and Enerlex to execute a recordable stipulation as described in title requirement no. 6 of the attached Drilling Title Opinion dated September 17, 2007.

Enclosed for you review and potential execution are duplicate AFE Well Cost Estimates for the proposed well. Should either or both of you decide to participate in the proposed well, please so indicate by executing and returning one of the AFEs to my attention. Upon receipt of executed AFEs and of course a recordable stipulation, I will forward a JOA for your review and approval. Should the ultimate owner or owners choose not to participate, Mewbourne would consider trading for your interest(s) under mutually acceptable terms.

Sincerely,

**MEWBOURNE OIL COMPANY**



Steven J. Smith  
Senior Landman

Enclosure

Sparrow "27" State #1

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**Castle Royalties LLC  
15601 N. Dallas Parkway, Suite 900  
Addison, Texas 75001  
Attn: Mr. Mike Donovan**

2. Article Number  
(Transfer from service label)

7006 0100 0001 2428 5569

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  Agent  
*[Signature]*  Addressee

B. Received by (Printed Name) *Lee Carranza* C. Date of Delivery *9-28-07*

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

Sparrow "27" State #1

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. *27WK*
- Print your name and address on the reverse so that we can return the card to you. *apb*
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**Enerlex, Inc.  
18452 E. 111th Street  
Broken Arrow, Oklahoma 74011  
Attn: Mr. Steve Snead**

2. Article Number  
(Transfer from service label)

7006 0100 0001 2428 5576

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature  Agent  
*[Signature]*  Addressee

B. Received by (Printed Name) *Sam M. Daniel* C. Date of Delivery *9/28*

D. Is delivery address different from item 1?  Yes  
If YES, enter delivery address below:  No

3. Service Type  
 Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER, INC.

ATTORNEYS AT LAW

MIDLAND, TEXAS

FASKEN CENTER • TOWER TWO  
550 WEST TEXAS AVENUE, SUITE 800 • 79701

P.O. BOX 1540 • 79702  
432/682-1616  
FACSIMILE 432/682-4884

ALLEN G. HARVEY

LICENSED IN TEXAS AND NEW MEXICO

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NEW MEXICO

BOARD CERTIFIED SPECIALIST

IN NATURAL RESOURCES -

OIL & GAS LAW

DIRECT DIAL 688-0290

aharvey@stubbemanlawfirm.com

September 17, 2007

**ORIGINAL DRILLING TITLE OPINION**

Mewbourne Oil Company  
500 W. Texas, Suite 1020  
Midland, TX 79701

Attn: Mr. Steve Smith

Re: **State of New Mexico Lease E-5839** insofar as it covers the following land in **LEA COUNTY, NEW MEXICO:**

**Township 19 South, Range 35 East, NMPM**

Section 27: E/2 NW/4,

containing 80 acres, more or less, excluding the unitized interval as defined in the Unit Agreement for the East Pearl Queen Unit dated May 23, 1963, recorded in Book 203, page 176, Miscellaneous Records.

**(Your Sparrow Prospect)**

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Gentlemen:

We have examined the following:

**ABSTRACT**

Abstract No. 55641 certified by Federal Abstract Company as covering the records of the Offices of the Commissioner of Public Lands of the State of New Mexico affecting the oil and gas mineral rights to captioned land under the captioned lease for the period from inception of the records to September 4, 2007 at 8:00 a.m., containing 72 pages.

**EXAMINATION OF THE RECORDS**

We have examined the records of Lea County, New Mexico pertaining to captioned land for the period from inception of the records to August 25, 2007 at 7:00 a.m. based upon the indices and copy of the records maintained by Caprock Title Company, Inc.

**INSTRUMENT**

Copy of partially executed and unrecorded Term Assignment from Rutter and Wilbanks Corp., et al. to Mewbourne Oil Company, more particularly described below.

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Based upon examination of the foregoing and subject to the title requirements hereinafter made, we find that as of September 4, 2007 at 8:00 a.m. as to the records of the Offices of the Commissioner of Public Lands of the State of New Mexico and August 25, 2007 at 7:00 a.m. as to the records of Lea County, New Mexico, title to captioned land is vested as follows:

**FEE TITLE**

**Surface Estate:**

**A tract of land within the NE/4 NW/4 of Section 27, T19S, R35E, NMPM, Lea County, New Mexico and more particularly described as follows:**

Beginning at a 2" iron pipe for the northwest corner of Section 27, T19S, R35E, NMPM, Lea County, New Mexico; thence S. 89° 55' E., with the north line of said Section 27 a distance of 2,070' to a 3/4" reinforcing bar set for the northwest corner and beginning point for the tract herein described; thence E. 0° 05' W. 660' to a 3/4" reinforcing bar set for the southwest corner of this tract; thence S. 89° 55' E. 330' to a 3/4" reinforcing bar set for the southeast corner of this tract; thence N. 0° 05' E. 660' to a 3/4" reinforcing bar set for the northeast corner of this tract in the north line of said Section 27 from whence the northeast corner thereof bears S. 89° 55' E. 2889'; thence N. 89° 55' W. with the north line of said Section 27, a distance of 330' to the point of beginning of this tract and enclosing 5.00 acres, more or less, according to plat of survey, drawn 7-2-52, for Phillips Petroleum Company, filed in the State Land Office, Santa Fe, New Mexico.

GPM Gas Company LLC ..... All

**The remainder of captioned land:**

State of New Mexico ..... All

**Mineral Estate:**

State of New Mexico ..... All

**OIL AND GAS LEASEHOLD ESTATE**

**Record Title:**

Sirgo Brothers, Inc. and Rutter and Wilbanks Corp. .... All

**Operating Rights (excluding the unitized interval of the East Pearl Queen Unit):**

Enerlex, Inc./Castle Royalties LLC (See Requirement No. 6) ..... 1/6 of 7/8 WI

Mewbourne Oil Company ..... 5/6 of 7/8 WI \*

\* This interest is derived from a Term Assignment described as Assignment No. 26 below. In this assignment, the assignors reserved a proportionately reduced 9.5% overriding royalty interest owned as follows:

Rutter and Wilbanks Corp. .... 30%  
Victor J. Sirgo, whose wife is Sharla Sirgo ..... 20%  
Charles R. Wiggins, whose wife is Deborah Wiggins ... 50%

**EXISTING OIL AND GAS LEASE**

Serial No.: E-5839.  
Date: December 10, 1951.  
Recorded: Apparently unrecorded and there is no necessity to do so.  
Lessor: The State of New Mexico acting by and through its Commissioner of Public Lands.  
Lessee: Reese Cleveland.

6.

By Assignment No. 25 above, Enerlex, Inc. assigned to Castle Royalties LLC all of its oil, gas and other minerals, royalty interests, fee mineral interests, overriding royalty interests, net profits interests, production payments and other similar interests owned by it as of February 1, 2007 in the lease. The preamble to page 3 of Exhibit "A" where the lease is described states: "Toro wells and all the grantor's interest in the following oil and gas leases". Because Enerlex, Inc. owned a 1/6 interest in the operating rights in the lease at the time this assignment was executed, an ambiguity exists whether the assignment conveys any of the operating rights or simply any non-cost bearing interests that it might own in the lease.

**REQUIREMENT:** Submit for examination a stipulation of interest between Enerlex, Inc. and Castle Royalties LLC which shows how the operating rights in the lease are owned as between these two parties. The stipulation of interest, containing words of grant, should be recorded in Lea County, New Mexico.

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