

LAW OFFICES
TURNER & DAVIS
A PROFESSIONAL CORPORATION

400 W. ILLINOIS, SUITE 1400
P. O. BOX 2796
MIDLAND, TEXAS 79702-2796

J. RANDY TURNER
MEMBER TEXAS AND NEW MEXICO BARS

TELEPHONE (915) 687-0011
FAX (915) 686-5135
jturner@turner-davis.com

Davis
CC: CL&F
Great Western
Kathie

July 17, 2000

ORIGINAL DIVISION ORDER TITLE OPINION

Nearburg Producing Company
3300 N. "A" St., Bldg. 2, Ste. 120
Midland, TX 79705-5408

Attention: Mr. Bob Shelton

Re: Your Grama Ridge East "34" Fed No. 1 Well - ownership of the oil and gas produced and saved from said well, situated on the following-described land:

Township 21 South, Range 34 East, N.M.P.M.
Section 34: N/2

Lea County, New Mexico, containing 320 acres, more or less, from the surface down to 13,500 feet below the surface.

Gentlemen:

For division order purposes, we have examined the following:

MATERIALS EXAMINED

Abstract

Abstract No. 7475, certified by Schutz Abstract Company, Inc. as covering the Records in the Offices of the Commissioner of Public Lands of the State of New Mexico, as to the oil and gas mineral rights under State Lease V-5683, covering captioned land, from the inception of such records to July 12, 2000 at 8:00 a.m., containing 56 pages.

Examination of the Records

We have examined all of the instruments affecting the title to State Lease V-5683, covering captioned land, from the date of such lease to June 22, 2000 at 7:00 a.m., as reflected by the indices of Caprock Title Company.

Instruments

1. Copy of the Operating Agreement described below.
2. Copy of your ownership and calculations of interests for captioned well.
3. Unexecuted copies of Assignment Nos. 4 through 10, analyzed below.

O:\DOCS\170-00\nearburg018.wpd\50345-257

Nearburg 1-E

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **E-1**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

N0225

Nearburg Producing Company

- 2 -

July 17, 2000

OWNERSHIP OF PRODUCTION

Based upon examination of the foregoing and subject to the title requirements hereinafter made, we find the oil and gas produced and saved from captioned well, as to captioned land and depths, is owned as follows:

Royalty Interest:

<u>Owner</u>	<u>Calculation</u>	<u>Interest in Production</u>
State of New Mexico	All of 1/6	.16666667
<u>Overriding Royalty Interests:</u>		
Wayne Newkumet	.45% of 2%	.00900000
James E. Brown	15% of 2%	.00300000
Brent D. Hilliard	15% of 2%	.00300000
Wendell R. Creech	15% of 2%	.00300000
David F. Alderks	10% of 2%	.00200000
Ted F. Gawloski	.5% of 50%	.00250000
Nearburg Producing Company, for the benefit of the Nearburg Producing Company Employee Fund	1% of 50%	.00500000
Total Overriding Royalty Interests		<u>.02750000</u>
Total Lease Burdens		<u>.19416667</u>

Working Interests:

Great Western Drilling Company	.25 x .81333333	.20333333
Continental Land & Fur Co., Inc.	.25 x .81333333	.20333333
Leesburg Investments, Ltd.	.04 x .39916667	.01596666
Roy G. Niederhoffer	.03 x .39916667	.01197500
Holsum, Inc.	.03 x .39916667	.01197500
Madison Capital (Tristan)	.02 x .39916667	.00798333
Menpart Associates	.0175 x .39916667	.00698541
AAR Limited Partnership	.015 x .39916667	.00598750
R-N Limited Partnership	.015 x .39916667	.00598750
LJR Resources Ltd. Co.	.01 x .39916667	.00399167
Gene Reischman	.01 x .39916667	.00399167
J. Kenneth Smith	.01 x .39916667	.00399167
Wright Family Living Trust	.01 x .39916667	.00399167
Duane A. Davis	.0025 x .39916667	.00099791
Timothy R. MacDonald	.00083333 x .39916667	.00033264
Dean A. Horning	.00083333 x .39916667	.00033264

Nearburg Producing Company

- 3 -

July 17, 2000

<u>Owner</u>	<u>Calculation</u>	<u>Interest in Production</u>
Robert G. Shelton	.00083333 x .39916667	.00033264
Duke W. Roush	.00083333 x .39916667	.00033264
Herbert R. Willis	.00083333 x .39916667	.00033264
Nearburg Exploration Company, L.L.C.	.78583335 x .39916667	<u>.31367848</u>
Total Working Interests		.80583333

After Payout, as defined in Assignment No. 1, described below, (assuming that Great Western Drilling Company elects to receive an additional 25% of 75% (18.75%) working interest in captioned well):

Royalty Interest:

<u>Owner</u>	<u>Calculation</u>	<u>Interest in Production</u>
State of New Mexico	All of 1/6	.16666667

Overriding Royalty Interests:

Wayne Newkumet	.45% of 2%	.00900000
James E. Brown	15% of 2%	.00300000
Brent D. Hilliard	15% of 2%	.00300000
Wendell R. Creech	15% of 2%	.00300000
David F. Alderks	10% of 2%	.00200000
Ted F. Gawloski	.5% of .375%	.00187500
Nearburg Producing Company, for the benefit of the Nearburg Producing Company Employee Fund	1% of .375%	.00375000

Total Overriding Royalty Interests **.02562500**

Total Lease Burdens **.19229167**

Working Interests:

Great Western Drilling Company	.4375 x .81333333	.35583333
Continental Land & Fur Co., Inc.	.1875 x .81333333	.15250000
Leesburg Investments, Ltd.	.04 x .299375	.01197500
Roy G. Niederhoffer	.03 x .299375	.00898125
Holsum, Inc.	.03 x .299375	.00898125
Madison Capital (Tristan)	.02 x .299375	.00598750
Menpart Associates	.0175 x .299375	.00523906
AAR Limited Partnership	.015 x .299375	.00449062
R-N Limited Partnership	.015 x .299375	.00449062
LJR Resources Ltd. Co.	.01 x .299375	.00299375

Nearburg Producing Company

- 4 -

July 17, 2000

<u>Owner</u>	<u>Calculation</u>	<u>Interest in Production</u>
Gene Reischman	.01 x .299375	.00299375
J. Kenneth Smith	.01 x .299375	.00299375
Wright Family Living Trust	.01 x .299375	.00299375
Duane A. Davis	.0025 x .299375	.00074844
Timothy R. MacDonald	.00083333 x .299375	.00024948
Dean A. Horning	.00083333 x .299375	.00024948
Robert G. Shelton	.00083333 x .299375	.00024948
Duke W. Roush	.00083333 x .299375	.00024948
Herbert R. Willis	.00083333 x .299375	.00024948
Nearburg Exploration Company, L.L.C.	.78583335 x .299375	<u>.23525886</u>
Total Working Interests		.80770833

After "Prospect Payout" (being "Payout" as defined in the Proposals and Agreements described in Assignment Nos. 6, 7 and 8, below):

Royalty Interest:

<u>Owner</u>	<u>Calculation</u>	<u>Interest in Production</u>
State of New Mexico	All of 1/6	.16666667

Overriding Royalty Interests:

Wayne Newkumet	.45% of 2%	.00900000
James E. Brown	15% of 2%	.00300000
Brent D. Hilliard	15% of 2%	.00300000
Wendell R. Creech	15% of 2%	.00300000
David F. Alderks	10% of 2%	.00200000
Ted F. Gawloski	.5% of .375%	.00187500
Nearburg Producing Company, for the benefit of the Nearburg Producing Company Employee Fund	1% of .375%	.00375000

Total Overriding Royalty Interests **.02562500**

Total Lease Burdens **.19229167**

Working Interests:

Great Western Drilling Company	.4375 x .81333333	.35583333
Continental Land & Fur Co., Inc.	.1875 x .81333333	.15250000
Leesburg Investments, Ltd.	.03 x .299375	.00898125
Roy G. Niederhoffer	.0225 x .299375	.00673594
Holsurn, Inc.	.03 x .299375	.00898125

Nearburg Producing Company

- 5 -

July 17, 2000

<u>Owner</u>	<u>Calculation</u>	<u>Interest in Production</u>
Madison Capital (Tristan)	.015 x .299375	.00449062
Mcnpart Associates	.013125 x .299375	.00392930
AAR Limited Partnership	.015 x .299375	.00449062
R-N Limited Partnership	.015 x .299375	.00449062
LJR Resources Ltd. Co.	.01 x .299375	.00299375
Gene Reischman	.01 x .299375	.00299375
J. Kenneth Smith	.01 x .299375	.00299375
Wright Family Living Trust	.01 x .299375	.00299375
Duane A. Davis	.0025 x .299375	.00074844
Timothy R. MacDonald	.00083333 x .299375	.00024948
Dean A. Horping	.00083333 x .299375	.00024948
Robert G. Shelton	.00083333 x .299375	.00024948
Duke W. Roush	.00083333 x .299375	.00024948
Herbert R. Willis	.00083333 x .299375	.00024948
Nearburg Exploration Company, L.L.C.	.81270835 x .299375	<u>.24330456</u>
Total Working Interests		.80770833

EXISTING OIL AND GAS LEASE

Serial No.: V-5683.

Date: January 1, 2000.

Recorded: Book 1001, page 553 of the Lea County Records.

Lessor: State of New Mexico.

Lessee: Great Western Drilling Company.

Land Covered: Captioned land.

Interest Covered: All interest therein.

Primary Term: Five (5) years from date.

Royalties: 1/6 on oil and gas, payable in the manner prescribed by state regulations.

Shut-in Gas Well Royalty: This lease shall not expire at the end of the primary term if there is a well capable of producing gas in paying quantities located on the leased premises or lands communitized therewith, where such well is shut in due to the inability of Lessee to obtain a pipeline connection or to market the gas therefrom, and if Lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the

Nearburg Producing Company

- 6 -

July 17, 2000

expiration of 90 days from the date the well is shut in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities, and upon commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable under the lease to Lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leased premises and through no fault of Lessee, the pipeline connection or market is lost or ceases, in which case the lease shall not expire so long as said annual royalty is paid as provided in the lease. The amount of any annual royalty payable under this section shall equal twice the annual rental due by Lessee under the terms of the lease, but not less than \$320.00 per well per year; provided, however, that any such annual royalty for any year beginning on or after ten years from the date of the lease shall equal four times the annual rental due by Lessee under the terms of the lease, but not less than \$2,000.00 per well per year. No annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by Lessor and if such other lease includes lands communitized with the leased premises for the purpose of prorationally sharing in the shut-in well. Notwithstanding the provisions of this section to the contrary, the lease shall not be continued after five years from the date thereof for any period of more than ten years by payment of said annual royalty unless, for good cause shown, the Commissioner of Public Lands, in his discretion, grants such a continuance.

Annual Rentals:	Rentals in the sum of \$1.00 per acre are payable on or before each anniversary date of the lease, <u>regardless of drilling operations on or production from the leased premises or on lands communitized or unitized therewith.</u>
Pooling Provision:	None provided for in the lease; however, communitization is authorized by state statute and state regulation.
Lease Form:	Discovery Form.
Status of Lease:	This lease is in the first year of its primary term. Annual rentals have been paid through January 1, 2001.

ASSIGNMENTS

1. By Assignment of Overriding Royalty Interest dated February 16, 2000, recorded in Book 1006, page 101 of the Lea County Records, Great Western Drilling Company assigned to the following parties, in the proportions set forth opposite their names, an overriding royalty interest equal to 2% of the oil and gas produced and saved from captioned land:

Wayne Newkumet	45%
James E. Brown	15%
Brent D. Hilliard	15%
Wendell R. Creech	15%
David F. Alderks	10%

Nearburg Producing Company

- 7 -

July 17, 2000

2. By Assignment dated March 3, 2000, recorded in Book 1008, page 69 of the Lea County Records, Great Western Drilling Company assigned an undivided 75% interest in the operating rights and working interest in the lease analyzed above to Nearburg Exploration Company, L.L.C. Upon payout of the first well drilled under the provisions of this lease, the "Initial Well", Assignor has the right to back-in for an undivided 25% of the operating rights and working interest in the lease assigned herein. "Payout" means the date upon which Assignee has recovered from its net share of the oil and gas produced from the Initial Well an amount equal to Assignee's share of the costs of drilling, testing, completing and equipping the Initial Well (collectively, the "Drilling Costs") and the cost of operating such well during the time the Drilling Costs were being recovered. For purposes hereof, Assignor's "net share" of the oil and gas production from the Initial Well shall mean its share of gross production from such well, less its share of the royalties, overriding royalty and ad valorem, severance and production taxes paid thereon.

This assignment is subject to the following agreements:

- (a) Letter Agreement dated February 22, 2000, between Assignor and Assignee, covering captioned land;
- (b) Operating Agreement dated February 17, 2000, between Nearburg Producing Company, as Operator, and Assignor, as Non-Operator, designating captioned land as the contract area covered thereby; and
- (c) Assignment of Overriding Royalty Interest described as Assignment No. 1, above.

3. By Assignment dated April 1, 2000, recorded in Book 1016, page 587 of the Lea County Records, Nearburg Exploration Company, L.L.C. assigned an undivided 25% of its right, title and interest in the lease analyzed above to Continental Land & Fur Co., Inc. This assignment is subject to the following agreements:

- (a) Assignment of Overriding Royalty Interest described as Assignment No. 1, above;
- (b) Assignment described as Assignment No. 2, above; and
- (c) Operating Agreement described below.

4. By unexecuted Assignment of Overriding Royalty Interest, to be effective as of February 18, 2000, Nearburg Exploration Company, L.L.C. will assign an overriding royalty interest equal to 1% of 50% of the oil, gas or other hydrocarbons produced, saved and sold from the lease analyzed above, to Nearburg Producing Company, for the benefit of the Nearburg Producing Company Employee Fund. If title fails to all or a portion of the lands described by this assignment, or if Assignor's interest in said lease decreases after payout due to any force pooling order or conversion of overriding royalty interest to a working interest, the overriding royalty interest assigned herein shall be reduced proportionately. Similarly, if the working interest of Assignor increases after payout in accordance with the terms of any payout provision, the overriding royalty interest assigned herein shall be increased proportionately.

Assignor, its successors and assigns, shall free and exclusive control of all matters pertaining to said lease without liability, including the right to release and/or abandon the leasehold premises, pool or unitize all or any part of the lands covered thereby with lands and leases in the vicinity thereof, all without the joinder of the owner of the overriding royalty interest assigned hereby.

5. By unexecuted Assignment of Overriding Royalty Interest, to be effective as of February 21, 2000, Nearburg Exploration Company, L.L.C. will assign an overriding royalty interest equal to 1/2 of 1% of 50% of the oil, gas or other hydrocarbons produced, saved and sold from the lease analyzed above, to Ted F. Gawloski. If title fails to all or a portion of the lands described by this assignment, or if Assignor's interest in said lease decreases after payout due to any force pooling order or conversion of overriding royalty interest to a working interest, the overriding royalty interest assigned herein shall be reduced proportionately. Similarly, if the working interest of Assignor

Nearburg Producing Company

- 8 -

July 17, 2000

increases after payout in accordance with the terms of any payout provision, the overriding royalty interest assigned herein shall be increased proportionately.

Assignor, its successors and assigns, shall have free and exclusive control of all matters pertaining to said lease without liability, including the right to release and/or abandon the leasehold premises, pool or unitize all or any part of the lands covered thereby with lands and leases in the vicinity thereof, all without the joinder of the owner of the overriding royalty interest assigned hereby.

6. By unexecuted Assignment, to be effective as of February 23, 2000, Nearburg Exploration Company, L.L.C. will assign an undivided 4% of its interest in the lease analyzed above, insofar as it covers acreage within the producing unit formed or to be formed for the Morrow Formation in captioned well from the surface down to 13,500 feet below the surface in said well, limited to the right to receive production from the borehole of said well, to Leesburg Investments, Ltd.; provided, however, that Assignee shall have the right to participate in the drilling of a replacement well for said well, the drilling of which may be necessitated by mechanical failure of said well.

This assignment is made subject to the following:

- (a) Any and all valid subsisting royalties, overriding royalties, excess royalties and production payments to which said lease is subject;
- (b) Proposal and Agreement dated March 13, 2000, by and between Assignor and Leesburg Investments, Ltd. pertaining to said well;
- (c) The Operating Agreement described below;
- (d) Operating Agreement dated March 1, 2000, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, L.L.C., et al, as Non-Operators;
- (e) Letter Agreement dated February 12, 2000, by and between Nearburg Exploration Company, L.L.C. and Great Western Drilling Company;
- (f) Assignment No. 2, above;
- (g) Letter Agreement dated March 8, 2000, by and between Nearburg Exploration Company, L.L.C. and Continental Land & Fur Co., Inc.;
- (h) Assignment No. 3, above;
- (i) The 1.00% of 50.00% overriding royalty interest assigned to Nearburg Producing Company for the benefit of its Employee Fund by Assignment No. 4, above; and
- (j) The 1/2 of 1.00% of 50.00% overriding royalty interest assigned to Ted F. Gawloski by Assignment No. 5, above.

This assignment is further subject to said lease and all term assignment agreements, and any other agreement by and between Assignor and third parties which have been entered into by Assignor or Assignor's predecessors, of record in Lea County, New Mexico.

Assignor reserves, upon Payout (as defined in the Proposal and Agreements) 25% of the working interest and net revenue interest in said well being assigned herein to Assignee.

In addition, Assignors, its successors and assigns, shall have free and exclusive control of all matters pertaining to the oil and gas lease assigned herein, without liability, including the right to release and/or abandon the leasehold lands, pool or unitize all or any part of the lands covered

Nearburg Producing Company

- 9 -

July 17, 2000

thereby with lands and leases in the vicinity thereof for the purpose of creating oil and gas producing units, all without the joinder of the owner of the leasehold interest herein conveyed.

If the leasehold estate herein conveyed is dedicated, pooled or unitized to a proration unit for the production of oil or gas, the production allocation to the lands herein assigned shall be in conformity with the allocation, allowable or order of any governmental regulatory body, or in the absence of any such allocation, allowable, or order, in the same ratio that the leasehold surface lands herein assigned bears to the total surface lands contained in such production unit.

If the Lessor in said lease owns a less interest in the premises covered hereby then the entire undivided fee simple estate in all or any part of the lands described therein or oil and gas mineral rights relating thereto, then the leasehold interest herein assigned shall be proportionately reduced. If title fails to all or a portion of the lands described on said Exhibit "A", or should Assignor's interest in and to said lease decrease after payout due to any forced pooling order or conversion of overriding royalty interest to a working interest, the interest herein assigned shall be reduced proportionately. In a like manner, if the working interest of Nearburg Exploration Company, L.L.C. should increase after payout in accordance with the terms of any payout provision, the interest herein assigned shall be increased proportionately.

7. By unexecuted Assignment, to be effective as of February 25, 2000, Nearburg Exploration Company, L.L.C. will assign an undivided 3% of its interest in the lease analyzed above, insofar as it covers acreage within the producing unit formed or to be formed for the Morrow Formation in captioned well from the surface down to 13,500 feet below the surface in said well, limited to the right to receive production from the borehole of said well, to Roy G. Niederhoffer; provided, however, that Assignee shall have the right to participate in the drilling of a replacement well for said well, the drilling of which may be necessitated by mechanical failure of said well.

This assignment is made subject to the following:

- (a) Any and all valid subsisting royalties, overriding royalties, excess royalties and production payments to which said lease is subject;
- (b) Proposal and Agreement dated _____ 2000, by and between Assignor and Roy G. Niederhoffer pertaining to said well;
- (c) Exploration and Development Agreement dated November 1, 1990, by and between Nearburg Producing Company, et al, and Roy Niederhoffer ("Exploration Agreement");
- (d) The Operating Agreement described below;
- (e) Operating Agreement dated March 1, 2000, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, L.L.C., et al, as Non-Operators;
- (f) Letter Agreement dated February 12, 2000, by and between Nearburg Exploration Company, L.L.C. and Great Western Drilling Company;
- (g) Assignment No. 2, above;
- (h) Letter Agreement dated March 8, 2000, by and between Nearburg Exploration Company, L.L.C. and Continental Land & Fur Co., Inc.;
- (i) Assignment No. 3, above;
- (j) The 1.00% of 50.00% overriding royalty interest assigned to Nearburg Producing Company for the benefit of its Employee Fund by Assignment No. 4, above; and

Nearburg Producing Company

- 10 -

July 17, 2000

- (k) The 1/2 of 1.00% of 50.00% overriding royalty interest assigned to Ted F. Gawloski by Assignment No. 5, above.

This assignment is further subject to said lease and all term assignment agreements, and any other agreement by and between Assignor and third parties which have been entered into by Assignor or Assignor's predecessors, of record in Lea County, New Mexico.

Assignor reserves, upon Payout (as defined in the Proposal and Agreements) 25% of the working interest and net revenue interest in said well being assigned herein to Assignee.

In addition, Assignors, its successors and assigns, shall have free and exclusive control of all matters pertaining to the oil and gas lease assigned herein, without liability, including the right to release and/or abandon the leasehold lands, pool or unitize all or any part of the lands covered thereby with lands and leases in the vicinity thereof for the purpose of creating oil and gas producing units, all without the joinder of the owner of the leasehold interest herein conveyed.

If the leasehold estate herein conveyed is dedicated, pooled or unitized to a proration unit for the production of oil or gas, the production allocation to the lands herein assigned shall be in conformity with the allocation, allowable or order of any governmental regulatory body, or in the absence of any such allocation, allowable, or order, in the same ratio that the leasehold surface lands herein assigned bears to the total surface lands contained in such production unit.

If the Lessor in said lease owns a less interest in the premises covered hereby then the entire undivided fee simple estate in all or any part of the lands described therein or oil and gas mineral rights relating thereto, then the leasehold interest herein assigned shall be proportionately reduced. If title fails to all or a portion of the lands described on said Exhibit "A", or should Assignor's interest in and to said lease decrease after payout due to any forced pooling order or conversion of overriding royalty interest to a working interest, the interest herein assigned shall be reduced proportionately. In a like manner, if the working interest of Nearburg Exploration Company, L.L.C. should increase after payout in accordance with the terms of any payout provision, the interest herein assigned shall be increased proportionately.

8. By unexecuted Assignment, to be effective as of February 28, 2000, Nearburg Exploration Company, L.L.C. will assign an undivided 2% of its interest in the lease analyzed above, insofar as it covers acreage within the producing unit formed or to be formed for the Morrow Formation in captioned well from the surface down to 13,500 feet below the surface in said well, limited to the right to receive production from the borehole of said well, to Madison Capital (Tristan), and a 1.75% of assignor interest to Menpart Associates; provided, however, that Assignee shall have the right to participate in the drilling of a replacement well for said well, the drilling of which may be necessitated by mechanical failure of said well.

This assignment is made subject to the following:

- (a) Any and all valid subsisting royalties, overriding royalties, excess royalties and production payments to which said lease is subject;
- (b) Proposal and Agreement dated March 14, 2000, by and between Assignor and Madison Capital (Tristan);
- (c) Proposal and Agreement dated March 15, 2000, by and between Assignor and Menpart Associates pertaining to said well;
- (d) The Operating Agreement described below;
- (e) Operating Agreement dated March 1, 2000, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, L.L.C., et al, as Non-Operators;

Nearburg Producing Company

- 11 -

July 17, 2000

- (f) Letter Agreement dated February 12, 2000, by and between Nearburg Exploration Company, L.L.C. and Great Western Drilling Company;
- (g) Assignment No. 2, above;
- (h) Letter Agreement dated March 8, 2000, by and between Nearburg Exploration Company, L.L.C. and Continental Land & Fur Co., Inc.;
- (i) Assignment No. 3, above;
- (j) The 1.00% of 50.00% overriding royalty interest assigned to Nearburg Producing Company for the benefit of its Employee Fund by Assignment No. 4, above; and
- (k) The 1/2 of 1.00% of 50.00% overriding royalty interest assigned to Ted F. Gawloski by Assignment No. 5, above.

This assignment is further subject to said lease and all term assignment agreements, and any other agreement by and between Assignor and third parties which have been entered into by Assignor or Assignor's predecessors, of record in Lea County, New Mexico.

Assignor reserves, upon Payout (as defined in the Proposal and Agreements) 25% of the working interest and net revenue interest in said well being assigned herein to Assignee.

In addition, Assignors, its successors and assigns, shall have free and exclusive control of all matters pertaining to the oil and gas lease assigned herein, without liability, including the right to release and/or abandon the leasehold lands, pool or unitize all or any part of the lands covered thereby with lands and leases in the vicinity thereof for the purpose of creating oil and gas producing units, all without the joinder of the owner of the leasehold interest herein conveyed.

If the leasehold estate herein conveyed is dedicated, pooled or unitized to a proration unit for the production of oil or gas, the production allocation to the lands herein assigned shall be in conformity with the allocation, allowable or order of any governmental regulatory body, or in the absence of any such allocation, allowable, or order, in the same ratio that the leasehold surface lands herein assigned bears to the total surface lands contained in such production unit.

If the Lessor in said lease owns a less interest in the premises covered hereby then the entire undivided fee simple estate in all or any part of the lands described therein or oil and gas mineral rights relating thereto, then the leasehold interest herein assigned shall be proportionately reduced. If title fails to all or a portion of the lands described on said Exhibit "A", or should Assignor's interest in and to said lease decrease after payout due to any forced pooling order or conversion of overriding royalty interest to a working interest, the interest herein assigned shall be reduced proportionately. In a like manner, if the working interest of Nearburg Exploration Company, L.L.C. should increase after payout in accordance with the terms of any payout provision, the interest herein assigned shall be increased proportionately.

9. By unexecuted Assignment, to be effective as of March 1, 2000, Nearburg Exploration Company, L.L.C. will assign to the following parties:

<u>Proposal and Agreement Date</u>	<u>Assignee</u>	<u>Interests</u>
03/19/00	Holsum, Inc.	3.00%
03/10/00	AAR Limited Partnership	1.50%
03/14/00	R-N Limited Partnership	1.50%
03/14/00	Gene Reischman, Separate Estate	1.00%
03/10/00	LJR Resources Ltd. Co.	1.00%
03/20/00	J. Kenneth Smith	1.00%
03/10/00	Wright Family Living Trust	1.00%

Nearburg Producing Company

- 12 -

July 17, 2000

the interest set forth opposite their names in and to Assignor's interest in the lease analyzed above, insofar as it covers acreage within the producing unit formed or to be formed for the Morrow Formation in captioned well from the surface down to 13,500 feet below the surface in said well, limited to the right to receive production from the borehole of said well, provided, however, that Assignee shall have the right to participate in the drilling of a replacement well for said well, the drilling of which may be necessitated by mechanical failure of said well.

This assignment is made subject to the following:

- (a) Any and all valid subsisting royalties, overriding royalties, excess royalties and production payments to which said lease is subject;
- (b) Proposal and Agreement dated as shown opposite each Assignee's name, by and between Assignor and such Assignee, pertaining to said well;
- (c) The Operating Agreement described below;
- (d) Operating Agreement dated March 1, 2000, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, L.L.C., et al, as Non-Operators;
- (e) Letter Agreement dated February 12, 2000, by and between Nearburg Exploration Company, L.L.C. and Great Western Drilling Company;
- (f) Assignment No. 2, above;
- (g) Letter Agreement dated March 8, 2000, by and between Nearburg Exploration Company, L.L.C. and Continental Land & Fur Co., Inc.;
- (h) Assignment No. 3, above;
- (i) The 1.00% of 50.00% overriding royalty interest assigned to Nearburg Producing Company for the benefit of its Employee Fund by Assignment No. 4, above; and
- (j) The 1/2 of 1.00% of 50.00% overriding royalty interest assigned to Ted F. Gawloski by Assignment No. 5, above.

This assignment is further subject to said lease and all term assignment agreements, and any other agreement by and between Assignor and third parties which have been entered into by Assignor or Assignor's predecessors, of record in Lea County, New Mexico.

In addition, Assignors, its successors and assigns, shall have free and exclusive control of all matters pertaining to the oil and gas lease assigned herein, without liability, including the right to release and/or abandon the leasehold lands, pool or unitize all or any part of the lands covered thereby with lands and leases in the vicinity thereof for the purpose of creating oil and gas producing units, all without the joinder of the owner of the leasehold interest herein conveyed.

If the leasehold estate herein conveyed is dedicated, pooled or unitized to a proration unit for the production of oil or gas, the production allocation to the lands herein assigned shall be in conformity with the allocation, allowable or order of any governmental regulatory body, or in the absence of any such allocation, allowable, or order, in the same ratio that the leasehold surface lands herein assigned bears to the total surface lands contained in such production unit.

If the Lessor in said lease owns a less interest in the premises covered hereby then the entire undivided fee simple estate in all or any part of the lands described therein or oil and gas mineral rights relating thereto, then the leasehold interest herein assigned shall be proportionately reduced. If title fails to all or a portion of the lands described on said Exhibit "A", or should Assignor's interest in and to said lease decrease after payout due to any forced pooling order or conversion of

Nearburg Producing Company

- 13 -

July 17, 2000

overriding royalty interest to a working interest, the interest herein assigned shall be reduced proportionately. In a like manner, if the working interest of Nearburg Exploration Company, L.L.C. should increase after payout in accordance with the terms of any payout provision, the interest herein assigned shall be increased proportionately.

10. By unexecuted Assignment, to be effective as of March 3, 2000, Nearburg Exploration Company, L.L.C. will assign to the following parties:

<u>Proposal and Agreement Date</u>	<u>Assignee</u>	<u>Interests</u>
03/13/00	Duane A. Davis	.250000%
03/09/00	Timothy R. MacDonald	.083333%
03/10/00	Dan A. Horning	.083333%
03/10/00	Robert G. Shelton	.083333%
03/10/00	Duke W. Roush	.083333%
03/10/00	Herbert R. Willis	.083333%

the interest set forth opposite their names in and to Assignor's interest in the lease analyzed above, insofar as it covers acreage within the producing unit formed or to be formed for the Morrow Formation in captioned well from the surface down to 13,500 feet below the surface in said well, limited to the right to receive production from the borehole of said well, provided, however, that Assignee shall have the right to participate in the drilling of a replacement well for said well, the drilling of which may be necessitated by mechanical failure of said well.

This assignment is made subject to the following:

- (a) Any and all valid subsisting royalties, overriding royalties, excess royalties and production payments to which said lease is subject;
- (b) Proposal and Agreement dated as shown opposite each Assignee's name, by and between Assignor and such Assignee, pertaining to said well;
- (c) The Operating Agreement described below;
- (d) Operating Agreement dated March 1, 2000, by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, L.L.C., et al, as Non-Operators;
- (e) Letter Agreement dated February 12, 2000, by and between Nearburg Exploration Company, L.L.C. and Great Western Drilling Company;
- (f) Assignment No. 2, above;
- (g) Letter Agreement dated March 8, 2000, by and between Nearburg Exploration Company, L.L.C. and Continental Land & Fur Co., Inc.;
- (h) Assignment No. 3, above;
- (i) The 1.00% of 50.00% overriding royalty interest assigned to Nearburg Producing Company for the benefit of its Employee Fund by Assignment No. 4, above; and
- (j) The 1/2 of 1.00% of 50.00% overriding royalty interest assigned to Ted F. Gawloski by Assignment No. 5, above.

This assignment is further subject to said lease and all term assignment agreements, and any other agreement by and between Assignor and third parties which have been entered into by Assignor or Assignor's predecessors, of record in Lea County, New Mexico.

Nearburg Producing Company

- 14 -

July 17, 2000

In addition, Assignors, its successors and assigns, shall have free and exclusive control of all matters pertaining to the oil and gas lease assigned herein, without liability, including the right to release and/or abandon the leasehold lands, pool or unitize all or any part of the lands covered thereby with lands and leases in the vicinity thereof for the purpose of creating oil and gas producing units, all without the joinder of the owner of the leasehold interest herein conveyed.

If the leasehold estate herein conveyed is dedicated, pooled or unitized to a proration unit for the production of oil or gas, the production allocation to the lands herein assigned shall be in conformity with the allocation, allowable or order of any governmental regulatory body, or in the absence of any such allocation, allowable, or order, in the same ratio that the leasehold surface lands herein assigned bears to the total surface lands contained in such production unit.

If the Lessor in said lease owns a less interest in the premises covered hereby then the entire undivided fee simple estate in all or any part of the lands described therein or oil and gas mineral rights relating thereto, then the leasehold interest herein assigned shall be proportionately reduced. If title fails to all or a portion of the lands described on said Exhibit "A", or should Assignor's interest in and to said lease decrease after payout due to any forced pooling order or conversion of overriding royalty interest to a working interest, the interest herein assigned shall be reduced proportionately. In a like manner, if the working interest of Nearburg Exploration Company, L.L.C. should increase after payout in accordance with the terms of any payout provision, the interest herein assigned shall be increased proportionately.

OPERATING AGREEMENT

Captioned land, from the surface down to the base of the Morrow Formation, is subject to that certain Operating Agreement dated February 17, 2000, by and between Nearburg Producing Company, as Operator, and Great Western Drilling Company and Continental Land & Fur Co., Inc., as Non-Operators. This Operating Agreement is on the A.A.P.L. 610-1982 Model Form. Article III.B. provides that the parties bear the royalties due on each party's share of production.

Article IV.B.1. and 2. have been deleted and Article IV.B.3. has been altered so that all losses shall be joint losses.

Article VI.A. provides for commencing the Initial Well on or before March 31, 2000 at a location 1,548 feet from the north line and 990 feet from the east line of captioned Section 34 and requires the drilling of such well with due diligence to a depth of 13,700 feet, or to a depth adequate to test the Morrow Formation, whichever is the lesser depth. Article VI.B.2(a) provides for a 200% non-consent penalty for any newly acquired surface equipment beyond the wellhead connections, plus 100% of each nonconsenting party's share of the cost of operation of the well commencing with first production. Article VI.B.2.(b) provides for a 500% non-consent penalty for the cost of drilling, reworking, deepening, plugging back, testing and completing, and 500% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections).

The preferential right to purchase provision contained in Article VIII.F. has been deleted.

Article XIII., Option No. 2, has been selected for the term of this Operating Agreement.

Article XV. contains additional terms and provisions, including Article XV.F., which establishes an area of mutual interest, comprised of captioned land, for a term of three years from the effective date of this Operating Agreement.

A Memorandum of this Operating Agreement is recorded in Book 1008, page 71 of the Lea County Records.

Nearburg Producing Company

- 15 -

July 17, 2000

ENCUMBRANCES

None.

TAXES

Taxes are not assessed against lands owned by the State of New Mexico.

TITLE REQUIREMENTS

1.

State Lease K-3592, covering captioned land, was cancelled effective January 13, 1999, for failure to pay rental. State Lease K-3592, covering captioned land, had been included in the gas storage unit created by that certain Unit Operating Agreement and Unit Agreement for the operation of the Grama Ridge Morrow Unit Area. However, said lease, covering captioned land, ceased to be covered by such unit which it was cancelled, by virtue of Article XXI. (Loss of Title) of the Unit Operating Agreement for such unit.

REQUIREMENT: Advisory.

2.

We have not been furnished executed copies of Assignment Nos. 4 through 10.

REQUIREMENT: Submit for examination copies of executed Assignment Nos. 4 through 10, analyzed above.

3.

Several of the assignments described above are made subject to that certain Letter Agreement dated February 22, 2000, between Great Western Drilling Company and Nearburg Exploration Company, L.L.C. We have not been furnished a copy of this letter agreement.

REQUIREMENT: Submit for examination a copy of that certain Letter Agreement dated February 22, 2000, by and between Great Western Drilling Company and Nearburg Exploration Company, L.L.C.

COMMENTS

This opinion cannot cover such matters as area, boundaries, location on the ground or other matters which can be determined only by an actual ground survey.

This opinion is rendered for the sole use of the addressee. The matters set forth herein may not be relied upon by any other parties without the prior written consent of the undersigned.

We return herewith the abstract examined.

Respectfully submitted,

TURNER & DAVIS

By: 

J. Randy Turner

JRT:ldb