

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

February 5, 2002

Mr. Eric Hanson
Hanley Petroleum, Inc.
415 W. Wall, Suite 1500
Midland, Texas 79701

RE: North 50 acres of W/2 SW/4
Section 10, T-17-S, R-37-E
Lea County, New Mexico
Voyager Prospect

Dear Eric:

Pursuant to our telephone conversation yesterday, Nearburg Exploration Company, L.L.C. (NEC) hereby requests an Oil and Gas Lease covering your interest in the above captioned lands. Terms offered are:

- 1) \$150 per net acre
- 2) Three (3) year primary term.
- 3) 1/5th royalty.

If these terms are acceptable to you, please let me know and I will prepare a lease for your approval and execution. Should you have any questions or require additional information, please let me know.

Very truly yours,



M. Craig Clark
Land Consultant

MCC/dw

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12900 Exhibit No. 3
Submitted by:
NEARBURG EXPLORATION COMPANY, L.L.C.
Hearing Date: August 1, 2002

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

February 5, 2002

Petrovaughn, Inc.
11910 Greenville Ave., Suite 302
Dallas, Texas 75243

RE: North 50 acres of W/2 SW/4
Section 10, T-17-S, R-37-E
Lea County, New Mexico
Voyager Prospect

Gentlemen:

Nearburg Exploration Company, L.L.C. (NEC) hereby requests an Oil and Gas Lease covering your interest in the above captioned lands. Terms offered are:

- 1) \$100 per net acre
- 2) Three (3) year primary term.
- 3) 3/16ths royalty.

If these terms are acceptable to you, please let me know and I will prepare a lease for your approval and execution. Should you have any questions or require additional information, please let me know.

Very truly yours,



M. Craig Clark
Land Consultant

MCC/dw

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

May 2, 2002

Mr. Carl E. Sherrill
Conoco, Inc.
10 Desta Drive, Suite 100W
Midland, Texas 79705

RE: Voyager Prospect
South 30 acres of W/2 SW/4 of Section 10
T-17-S, R-37-E
Lea County, New Mexico

Dear Mr. Sherrill:

Nearburg Exploration Company, L.L.C. (NEC) hereby requests a term assignment of your interest covering the above captioned lands. Terms offered are:

- 1) \$100.00 per net mineral acre
- 2) 2 year term assignment
- 3) Reserve an overriding royalty interest equal to the difference between existing burdens and 22%.

Thanks for your time and consideration to this matter. Should you have any questions or require any additional information, please let me know.

Very truly yours,



M. Craig Clark
Land Consultant

MCC/dw

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 12
Midland, Texas 79701
915/686-8235
Fax 915/686-7806

May 29, 2002

VIA CERTIFIED MAIL

SEE DISTRIBUTION LIST

RE: Shipp #1
Section 10: S/2 SW/4
T-17-S, R-37-E
Lea County, New Mexico

Gentlemen:

Nearburg Exploration Company, L.L.C hereby proposes to test the Strawn formation by re-entering the Shipp #1 well located 990' FSL and 330' FWL of Section 10 and directionally drill to a bottom hole location of 860' FSL and 1,400' FWL of Section 10, T-17-S, R-37-E, Lea County, New Mexico. I have enclosed an Authority for Expenditure detailing the estimated costs to drill and complete this well.

Should you wish to participate in this well, please execute and return one copy of the AFE to the undersigned retaining the other copy for your records. Upon receipt of an executed AFE we will prepare a Joint Operating Agreement for your review and execution.

In the event you do not wish to participate, we hereby request you lease your interest for \$150.00 per acre for a two (2) year lease providing for a 1/5th royalty. Should you have any questions, please let me know.

Very truly yours,



Craig Clark
Land Consultant

CC/nr

Enclosure

Shipp #1
Section 10: S/2 SW/4
T-17-S, R-37-E
Lea County, New Mexico
Distribution List

Mr. Eric Hansen
Hanley Petroleum, Inc.
415 W. Wall, Suite 1500
Midland TX 79701

Petrovaughn, Inc.
11910 Greenville Ave., Suite 302
Dallas TX 75243

Republic Royalty Company
3738 Oak Lawn Ave., Suite 300
Dallas TX 75219

David Petroleum Corporation
116 W. 1st Street
Roswell NM 88201

Colin R. McMillan
Kay McMillan
116 W. 1st Street
Roswell NM 88201

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:

Petrovaughn, Inc.
11910 Greenville Ave., Suite 302
Dallas TX 75243

2. Article Number

(Transfer from service label)

7099 3400 0016 5944 5536

PS Form 3811, March 2001

Domestic Return Receipt

Shipp #1

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

D. Weatherly

B. Date of Delivery

C. Signature

X

☐ Agent☐ AddresseeD. Is delivery address different from item 1?
If YES, enter delivery address below

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

U.S. Postal Service
CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

Postage \$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)Postmark
Here

Total

Recip

Street

City, S

Petrovaughn, Inc.
11910 Greenville Ave., Suite 302
Dallas TX 75243

PS Form 3800, February 2000

See Reverse for Instructions

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.

Article Addressed to:

David Petroleum Corporation
116 W. 1st Street
Roswell NM 88201

Article Number

(Transfer from service label)

7099 3400 0016 5944 5532

3 Form 3811, March 2001

Domestic Return Receipt

Shipp #1

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

Bart Bellicini

B. Date of Delivery

5-30-02

C. Signature

X Bart Bellicini

☒ Agent☐ Addressee

D. Is delivery address different from item 1?

If YES, enter delivery address below

U.S. Postal Service
CERTIFIED MAIL RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

Postage \$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)Postmark
Here

Tot.

Recip

Street

City

David Petroleum Corporation
116 W. 1st Street
Roswell NM 88201

PS Form 3800, February 2000

See Reverse for Instructions

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Eric Hansen
Hanley Petroleum, Inc.
415 W. Wall, Suite 1500
Midland TX 79701

2. Article Number
(Transfer from service label) **7099 3400 0016 5944 5570**

PS Form 3811, March 2001 Domestic Return Receipt *Shipp #1*

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery
5-30

C. Signature
x Barbara Reid ☒ Agent ☐ Addressee

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below:

3. Service Type
☒ Certified Mail ☐ Express
☐ Registered ☒ Return F
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

**U.S. Postal Service
CERTIFIED MAIL RECEIPT**
(Domestic Mail Only; No Insurance Coverage Provided)

Postage	\$	Postmark Here
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$	

Recipient's Name (Please Print Clearly; to be completed by mailer)
Mr. Eric Hansen/Hanley Petro.
Street, Apt. No., or PO Box No.
415 W. Wall, Ste 1500
City, State, ZIP+4
Midland Tx 79701

PS Form 3800, February 2000 See Reverse for Instructions

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:

Colin R. McMillan
Kay McMillan
116 W. 1st Street
Roswell NM 88201

2. Article Number
(Transfer from service label) **7099 3400 0016 5944 5525**

PS Form 3811, March 2001 Domestic Return Receipt *Shipp #1*

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery
Bari Bellini *5/30/02*

C. Signature
x Bari Bellini ☒ Agent ☐ Addressee

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

3. Service Type
☒ Certified Mail ☐ Express
☐ Registered ☒ Return R
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

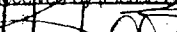
**U.S. Postal Service
CERTIFIED MAIL RECEIPT**
(Domestic Mail Only; No Insurance Coverage Provided)

Postage	\$	Postmark Here
Certified Fee		
Return Receipt Fee (Endorsement Required)		
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$	

Recipient's Name (Please Print Clearly; to be completed by mailer)
Colin R. McMillan
Street, Apt. No., or PO Box No.
Kay McMillan
City, State, ZIP+4
116 W. 1st Street
Roswell NM 88201

PS Form 3800, February 2000 See Reverse for Instructions

COMPLETE THIS SECTION ON DELIVERY

- A. Received by (Please Print Clearly) B. Date of Delivery

 C. Signature ☐ Agent
 X ☐ Addressee
 D. Is delivery address different from item 12 ☐ Yes
 If YES, enter delivery address b **U.S. Post**

D. Is delivery address different from item 12? ☐ Yes: **U.S. F**
If YES, enter delivery address b

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only; No Insurance Coverage Provided)

Postage
Certified Fee
Return Receipt Fee (Endorsement Required)
Restricted Delivery Fee (Endorsement Required)

7099 3400 0016 5944 5549

Domestic Return Receipt

Shipp #1

6455 4465 9700 004E 6602

Total P

Recipier.

Street A.

City, State

Republic Royalty Company
3738 Oak Lawn Ave., Suite 300
Dallas TX 75219

PS Form 3800, February 2000

See Reverse for Instructions

Nearburg Producing Company

Exploration and Production
Dallas, Texas

Page 1 of 2

AUTHORITY FOR EXPENDITURE

LEASE: Voyager (Shipp #1) WELL NUMBER: 1-Y PTV: 11,500'
 LOCATION: SHL: 990' FSL & 330' FWL, Section 10, T17S, R37E, Lea County, New Mexico
 BHL: 860' FSL & 1,400' FWL, 10,17S, 37E
 FIELD: Undesignated Strawn EXPLORATORY, DEVELOPMENT, WORKOVER: E
 DESCRIPTION OF WORK: Re-enter and directionally drill to the Strawn and complete as a flowing oil well.

DATE PREPARED: 5/29/02 EST. START DATE: 11/2002 EST. COMPLETION DATE: 11/2002
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS: includes NM Tax	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 11,500 Ft @ 0.00 \$/Ft	1514.101	0	NA	0	0
Drilling Daywork 18 1 8,000 \$/day	1514.105	152,640	1515.105	8,480	161,120
Drilling Turnkey	1514.110	0	1515.110	0	0
Rig Mobilization and Demobilization	1514.115	26,500	1515.115	0	26,500
Road & Location Expense	1514.120	18,285	1515.123	3,180	21,465
Damages	1514.125	5,000	1515.125	0	5,000
Directional Drilling - Tools and Service	1514.130	95,400	1515.130	0	95,400
Drilling Fluids	1514.135	10,600	1515.132	0	10,600
Fuel, Power, and Water	1514.140	10,600	1515.140	0	10,600
Supplies - Bits	1514.145	23,002	1515.145	1,060	24,062
	1514.150	1,590	1515.150	4,240	5,830
Supplies - Liner Equipment	1514.155	0	1515.155	0	0
Supplies - Miscellaneous	1514.160	0	1515.160	0	0
Cement and Cmt. Services - Surface Csg	1514.165	0	NA	0	0
Cement and Cmt. Services - Int. Csg	1514.170	0	NA	0	0
Cement and Cmt. Services - Prod. Csg	NA	0	1515.172	15,900	15,900
Cement and Cmt. Services - Other	1514.175	10,600	1515.175	0	10,600
Rental - Drilling Tools and Equipment	1514.180	0	1515.180	0	0
Rental - Misc.	1514.185	12,932	1515.185	15,900	28,832
Testing - Drill Stem / Production	1514.195	4,770	1515.195	15,900	20,670
Open Hole Logging	1514.200	0	NA	0	0
Mudlogging Services	1514.210	7,950	NA	0	7,950
Special Services	1514.190	0	1515.190	0	0
Plug and Abandon	1514.215	10,000	1515.215	(10,000)	0
Pulling and/or Swabbing Unit	NA	0	1515.217	26,500	26,500
Reverse Equipment	NA	0	1515.219	5,300	5,300
Wireline Services	1514.205	0	1515.205	6,360	6,360
Stimulation	NA	0	1515.221	5,300	5,300
Pump / Vacuum Truck Services	1514.220	0	1515.220	6,686	6,686
Transportation	1514.225	2,650	1515.225	3,180	5,830
Tubular Goods - Inspection & Testing	1514.230	0	1515.230	5,300	5,300
Unclassified	1514.245	530	1515.245	0	530
Telephone and Radio Expense	1514.240	636	1515.240	445	1,081
Engineer / Geologist / Landman	1514.250	7,500	1515.250	1,000	8,500
Company Labor - Field Supervision	1514.255	10,600	1515.255	5,000	15,600
Contract Labor / Roustabout	1514.265	9,540	1515.265	12,720	22,260
Legal and Professional Service	1514.270	5,000	1515.270	0	5,000
Insurance	1514.275	5,355	1515.275	0	5,355
Overhead	1514.280	5,250	1515.280	3,267	8,517
SUBTOTAL		436,930		135,718	572,648
Contingencies (10%)		43,693		13,572	57,265
ESTIMATED TOTAL INTANGIBLES		480,623		149,290	629,913

Nearburg Producing Company

Exploration and Production
Dallas, Texas

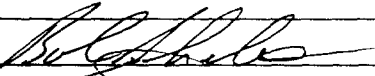
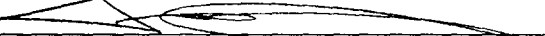
AUTHORITY FOR EXPENDITURE

LEASE: Voyager (Shipp #1) WELL NUMBER: 1-Y PTV: 11,500'
LOCATION: SHL: 990' FSL & 330' FWL, Section 10, T17S, R37E, Lea County, New Mexico
BHL: 860' FSL & 1,400' FWL, 10,17S, 37E
FIELD: Undesignated Strawn EXPLORATORY,DEVELOPMENT,WORKOVER: E
DESCRIPTION OF WORK: Re-enter and directionally drill to the Starwn and complete as a flowing oil well.

DATE PREPARED: 5/29/02 EST. START DATE: 11/2002 EST. COMPLETION DATE: 11/2002
ACCOUNTING WELL NUMBER:
COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:			CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	0 Ft @	0.00 \$/Ft	1520.305	0	NA	0	0
Surface Csg	0 Ft @	0.00 \$/Ft	1520.310	0	NA	0	0
Intermediate Csg	0 Ft @	0.00 \$/Ft	1520.315	0	NA	0	0
Protection Csg	0 Ft @	0.00 \$/Ft	1520.320	0	NA	0	0
Production Csg	11,500 Ft @	9.00 \$/Ft	NA	0	1522.325	103,500	103,500
Protection Liner	0 Ft @	0.00 \$/Ft	1520.330	0	NA	0	0
Production Liner	0 Ft @	0.00 \$/Ft	NA	0	1522.335	0	0
Tubing	11,200 Ft @	3.38 \$/Ft	NA	0	1522.340	37,856	37,856
Rods	0 Ft @	0.00 \$/Ft	NA	0	1522.345	0	0
Artificial Lift Equipment			NA	0	1522.350	0	0
Tank Battery			NA	0	1522.355	21,200	21,200
Separators/Heater Treater/Gas Units/FWKO			NA	0	1522.360	10,600	10,600
Well Head Equipment & Christmas Tree			1520.365	3,500	1522.365	5,000	8,500
Subsurface Well Equipment			NA	0	1522.370	5,300	5,300
Flow Lines			NA	0	1522.375	1,656	1,656
Saltwater Disposal Pump			NA	0	1522.391	0	0
Gas Meter			NA	0	1522.385	3,180	3,180
Lact Unit			NA	0	1522.387	0	0
Vapor Recovery Unit			NA	0	1522.389	0	0
Other Well Equipment			NA	0	1522.390	0	0
ROW and Damages			NA	0	1522.393	0	0
Surface Equipment Installation Costs			NA	0	1522.395	10,600	10,600
Elect. Installation			NA	0	1522.397	10,600	10,600
ESTIMATED TOTAL TANGIBLES				3,500		209,492	212,992
ESTIMATED TOTAL WELL COSTS				484,123		358,783	842,905

THIS AFE IS ONLY AN ESTIMATE. BY SIGNING YOU AGREE TO PAY YOUR SHARE OF THE ACTUAL COSTS INCURRED.

NPC APPROVAL	DATE
PREPARED BY: HRW	05/29/02
REVIEWED BY:	
APPROVED BY: 	5/29/02
APPROVED BY: 	6/29/02

WI APPROVAL: COMPANY _____
BY _____
TITLE _____
DATE _____

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

May 29, 2002

VIA CERTIFIED MAIL

Chesapeake Exploration, L.P.
ATTN: Land Department
P.O. Box 18496
Oklahoma City OK 73154

RE: Shipp #1
Section 10: S/2 SW/4
T-17-S, R-37-E
Lea County, New Mexico

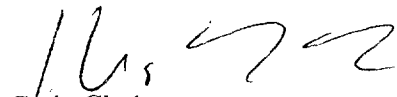
Gentlemen:

Nearburg Exploration Company, L.L.C hereby proposes to test the Strawn formation by re-entering the Shipp #1 well located 990' FSL and 330' FWL of Section 10 and directionally drill to a bottom hole location of 860' FSL and 1,400' FWL of Section 10, T-17-S, R-37-E, Lea County, New Mexico. I have enclosed an Authority for Expenditure detailing the estimated costs to drill and complete this well.

Should you wish to participate in this well, please execute and return one copy of the AFE to the undersigned retaining the other copy for your records. Upon receipt of an executed AFE we will prepare a Joint Operating Agreement for your review and execution.

In the event you do not wish to participate, we hereby request a Term Assignment of your interest under mutually acceptable terms. Should you have any questions, please let me know.

Very truly yours,


Craig Clark
Land Consultant

CC/nr

Enclosure

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
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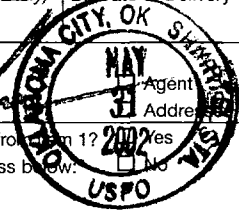
1. Article Addressed to:

Chesapeake Exploration, L.P.
ATTN: Land Department
P.O. Box 18496
Oklahoma City OK 73154

COMPLETE THIS SECTION ON DELIVERYA. Received by (Print Name) **BRIAN MILES** B. Date of Delivery

C. Signature

X

D. Is delivery address different from item 1? **2002** 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

2. Article Number

(Transfer from service label)

7099 3400 0016 5944 5518

PS Form 3811, March 2001

Domestic Return Receipt

Shipp #1

102595-01-M-1424

U.S. Postal Service**CERTIFIED MAIL RECEIPT**

(Domestic Mail Only; No Insurance Coverage Provided)

7099 3400 0016 5944 5518

Postage \$

Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)Postmark
Here

To Chesapeake Exploration, L.P.
Rec ATTN: Land Department
Street P.O. Box 18496
City Oklahoma City OK 73154

PS Form 3800, February 2000

See Reverse for Instructions

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

May 29, 2002

VIA CERTIFIED MAIL

Mr. Carl E. Sherrill
Conoco, Inc.
10 Desta Drive, Suite 100 W
Midland TX 79705

RE: Shipp #1
Section 10: S/2 SW/4
T-17-S, R-37-E
Lea County, New Mexico

Gentlemen:

Nearburg Exploration Company, L.L.C hereby proposes to test the Strawn formation by re-entering the Shipp #1 well located 990' FSL and 330' FWL of Section 10 and directionally drill to a bottom hole location of 860' FSL and 1,400' FWL of Section 10, T-17-S, R-37-E, Lea County, New Mexico. I have enclosed an Authority for Expenditure detailing the estimated costs to drill and complete this well.

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Very truly yours,



Craig Clark
Land Consultant

CC/nr

Enclosure

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- 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:

Mr. Carl E. Sherrill
Conoco, Inc.
10 Desta Drive, Suite 100 W
Midland TX 79705

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

x Donna Blake

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

2. Article Number

(Transfer from service label)

7099 3400 0016 5944 5501

PS Form 3811, March 2001

Domestic Return Receipt

Shipp #1

102595-01-M-1424

U.S. Postal Service**CERTIFIED MAIL RECEIPT**

(Domestic Mail Only; No Insurance Coverage Provided)

7099 3400 0016 5944 5501

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	

Postmark
Here

Mr. Carl E. Sherrill

R Conoco, Inc.

S 10 Desta Drive, Suite 100 W
C Midland TX 79705

PS Form 3800, February 2000

See Reverse for Instructions

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

June 25, 2002

Mr. Bill Owen
LDM Associates
116 W. 1st Street
Roswell, New Mexico 88201

RE: Shipp #1
S/2 SW/4 Section 10, T-17-S, R-37-E
Lea County, New Mexico
Voyager Prospect

Dear Mr. Owen:

In response to your letter of June 11, 2002, please be advised that Nearburg Exploration Company, L.L.C. (NEC) regrets that it is unable to accept your offer of a six month primary term, 1/4th royalty, no bonus lease with the conversion to a 1/5th royalty and a 25% back-in after payout of the initial test well.

As we discussed in our telephone conversation to date, the structure that is being drilled in the Voyager Prospect is smaller than other structures jointly drilled by NEC and LDM and we are expecting significantly fewer reserves, which dictate economic terms precluding a back-in after payout and/or a 1/4th royalty.

As suggested in your letter, NEC will be happy to afford Colin R. McMillian and David Petroleum Corp. the opportunity to review its geophysical interpretation and then decide if you choose to participate in the drilling of the well.

Please let me know when arrangements can be made for you to come to Midland and let Terry Durham present our information.

We appreciate your cooperation and look forward to working with you in this project.

Yours very truly,



Bob Shelton
Land Manager

BS/dw

cc: Terry Durham
Cap Horning
Charles Nearburg

L D M ASSOCIATES
116 W. FIRST STREET
ROSWELL, NEW MEXICO 88201

W. B. (BILL) OWEN
PETROLEUM LANDMAN

June 11, 2002

505 623-8800



Nearburg Exploration Company, LLC
3300 N. "A" Street Building 2, Suite 120
Midland, TX 79705-5408

Attention: Craig Clark, Land Consultant

Re: Shipp #1
T-17-S, R-37-E, NMPM
Section 10: S/2SW/4
Lea County, New Mexico

Dear Craig:

Pursuant to your proposal to re-enter and directionally drill the referenced well as described in your letter dated May 29, 2002 and my subsequent conversation with Bob Shelton, David Petroleum Corp. (DPC) and McMillan Production Company, Inc. (MPC) are agreeable to the following terms:

Upon review by DPC and MPC of Nearburg Exploration Company, LLC's (NEC) 3D Seismic in Nearburg's office in Midland, DPC and MPC independently will do one of the following:

- A. Join and participate as a working interest owner, signing your AFE and agreeing to a mutually acceptable Joint Operating Agreement, designating NEC as the Operator, or
- B. Grant NEC a lease on its mineral interest in the SE/4SW/4 of the referenced section providing for the following terms:
 - 1. No bonus consideration,
 - 2. Six (6) month primary term,
 - 3. One-fourth (1/4) Lessor's royalty,
 - 4. At payout, said lease would convert to a one-fifth (1/5) Lessor's royalty with Lessor owning a proportionately reduced twenty-five percent (25%) working interest as follows:

	<u>BPO</u>		<u>APO</u>	
	<u>WI</u>	<u>NRI</u>	<u>WI</u>	<u>NRI</u>
NEC	10.00%	7.5%	7.5%	6.0%
DPC & MPC	-----	2.5%	2.5%	4.0%

Nearburg Exploration Company, LLC
June 11, 2002
Page 2

Should you have any questions, please don't hesitate to give me a call. If agreeable, please sign and return one copy of this letter. We can then set a date for DPC and MPC to review said 3D data.

Sincerely,



Bill Owen
Land Manager

Agreed and accepted this _____ day of _____, 2002.

NEARBURG EXPLORATION COMPANY, LLC.

BY _____

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

July 17, 2002

Mr. Casey McManemin
Republic Royalty Company
P. O. Box 840-127
Dallas, Texas 75284-0127

RE: Voyager-Shipp #1-10
S/2 SW/4 of Section 10, T-17-S, R-37-E
Lea County, New Mexico

Dear Mr. McManemin:

Nearburg Exploration Company, L.L.C. (NEC) is in receipt of the Oil and Gas Lease form submitted by Republic Royalty Company (Republic) for our consideration and use with regard to the acquisition of Republic's mineral interest in a portion of the captioned land. In its present form the lease is unacceptable and would require amendments to the following articles.

Article 4 (a) Oil Royalty, (b) Gas Royalty, (c) Plant Products Royalty, (c) Compensatory Royalty, (f) Place of Payment (2) Shut-In Royalties and Compensatory Royalties and Article 8. Operations, Article 13. Information Required and Article 20. Most Favored Nations Agreement.

I would appreciate your review of these provisions and allow us your response as to whether these provisions may be modified. We appreciate your cooperation and look forward to your response.

Very truly yours,



Bob Shelton
Land Manager

BS/dw
Encl.

OIL AND GAS LEASE

THIS OIL AND GAS LEASE (this "Lease") is made and entered into effective as of the ____ day of ____, 2001, (the "Effective Date"), and is by and between REPUBLIC ROYALTY COMPANY, a Texas General Partnership ("Lessor"), having an address of 3738 Oak Lawn Avenue, Suite 300, Dallas, Texas 75219-4379, and ____ ("Lessee").

1. **Grant of Lease.** Lessor, for and in consideration of \$10.00 and other good and valuable consideration, the receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby lease, let and demise unto Lessee, its permitted successors-in-title and assigns, without warranties or covenants of title of any nature, or any other warranties or representations, except as specifically contained in this Lease, the following:

a. **Lands Leased.** The lands described in Exhibit "A" hereto (the "Lands") for the purposes and with the right of exploring, investigating, drilling for and operating for, producing, treating, storing and transporting oil and gas;

b. **Geological Surveys.** To the extent that Lessor has the right so to do, the non-exclusive right to conduct geological and geophysical surveys, by seismograph, gravity or magnetic methods or any other method developed in the future;

c. **Easements and Other Rights.** To the extent that Lessor has the right so to do, the right to lay pipelines, to construct roads, to dig canals, to build tanks, power stations and telephone lines, to the extent any of such activities are necessary or useful in Lessee's operations in exploring, investigating, drilling for, producing, treating, storing and transporting oil and gas produced from the land covered hereby, together with all easements, rights of ingress and egress and all other rights incidental or necessary for the full enjoyment of the estate herein granted.

For the purposes of determining payments due hereunder, unless a survey made by Lessee should otherwise determine, the Lands shall be deemed to contain ____ acres, whether actually containing more or less.

2. **Term.** Subject to the other provisions contained in this Lease, this Lease shall remain in force for a term commencing on the Effective Date and expiring at midnight local time, ____ calendar months after the Effective Date (the "Expiration Date"), which term is referred to in this Lease as the "Primary Term", and for so long thereafter as oil and gas or either of them is actually being produced in commercial quantities from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein and the royalties are paid thereon as herein provided.

3. **Royalty Share.** For the purposes of this Lease, the term "Royalty Share" shall mean a fraction equal to ____

4. **Royalties.** In respect of oil and gas which may be produced from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein, as royalty, Lessee covenants and agrees that Lessee shall comply with each of the following provisions:

a. **Oil Royalty.** In respect of oil (for the purposes of this Lease, the term "oil" shall also include other liquid hydrocarbons, other than as provided in Paragraph 4.c), Lessee shall deliver to the credit of Lessor, as royalty, in the pipeline to which Lessee may connect Lessee's wells, the Royalty Share of all oil produced and saved by Lessee from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein; the delivery of such oil shall be made free and clear of costs and expenses and to the credit of Lessor into the storage tanks or the pipeline to which the well or wells on the Lands may be connected. At Lessor's option, which may be exercised from time to time and at any time, Lessor may purchase any royalty oil in Lessee's possession, paying for such royalty oil the highest posted market price in the field for such oil at the wells as of the day it is run to the storage tanks or pipeline.

b. **Gas Royalty.** In respect of gas (for the purposes of this Lease, the term "gas" shall mean and include natural gas, casinghead gas and all other gaseous or vaporous substances which are hydrocarbons as the same may exist at the surface under normal atmospheric pressures and at normal ambient temperatures) produced and used off of or saved and sold from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein, Lessee shall pay Lessor, as royalty, the Royalty Share of the greater of (A) the market value of such gas or (B) the amount realized by Lessee without deduction for any cost of transportation, treating or compression. Except as provided in Paragraph 4.d. and 4.h, when any gas is produced, saved and sold from or produced and used off of the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein, Lessee shall pay Lessor, at a minimum as royalty, the Royalty Share of the greater amount of the market value or the total amount realized by Lessee as a consequence of the production of such gas.

c. **Plant Products Royalty.** If gas is produced from the Lands or lands pooled therewith as permitted herein and is thereafter processed in an absorption, extraction, casinghead, stripping or other plant or plants, whether such plants are listed in the foregoing list or not (a "processing plant"), then, in addition to the royalties provided for in the immediately preceding Paragraph 4.b, Lessee shall pay, as royalty, and Lessor shall receive, free and clear of all costs, the Royalty Share of the greater of the market value or the amount realized by Lessee of all plant products extracted, separated, absorbed or saved from such gas before the addition of treating or blending agents or substances not derived from such gas and, in addition, Lessor shall be paid, as royalty, the Royalty Share of the greater of the market value or the amount realized by Lessee from the sale of the residue gas remaining after the extraction of the plant products therefrom.

d. **Shut In Royalty.** If at any time, whether before or after the Expiration Date, Lessee shall have completed a well or wells on the Lands (or on land with which the Lands or any part thereof may be pooled) which well or wells are capable of producing gas in paying quantities but are shut-in with the result that gas is not produced, sold or used for 30 days, Lessee shall first promptly notify Lessor of the date such well is shut in, and thereafter, Lessee may pay as shut-in royalty to Lessor for each such shut-in well, on or before the later of (i) the Expiration Date or (ii) the 60th day after the date such gas ceases to be sold or used, an amount equal to the greater of: (A) the product of \$10.00 times the total acreage (without reducing the same by reason of any proportionate

reduction as contemplated in Paragraph 11) then covered by this Lease or (B) \$100.00, and upon the making of the greater payment specified in this Paragraph 4.d, it will be considered that each such well or wells are producing gas in paying quantities within the meaning of this Lease for a period of one year after such well is shut-in. In like manner and upon like payments being made annually on or before the expiration of the last preceding year for which such shut-in royalty payment has been made, it will be considered that said well or wells are producing gas in paying quantities for successive periods of one year each for a total of two years, and not thereafter. The proper payment of shut-in royalties under this Paragraph 4.d shall not perpetuate this Lease for a shut-in period in excess of two years.

If gas production is begun or resumed during the year following the payment of a shut-in royalty and the well is subsequently shut-in with the result that gas is not then being produced during such year, the second annual shut-in payment shall be due and payable on the first annual anniversary date of the first payment (the "First Anniversary Date"). If there is production on the First Anniversary Date and the well is subsequently shut-in with the result that gas is not then being produced then the second shut-in payment shall be made on or before 60 days after such new shut-in date or the Lease shall terminate. Such second shut-in royalty payment shall perpetuate this Lease only until the second annual anniversary date of the first shut-in royalty payment. The Lease shall likewise terminate prior to one year after the payment of a shut-in payment if the Lessee fails to timely pay shut-in royalty payments on each additional well which is shut-in. Should any shut-in royalty payment not be made in a timely manner as this Paragraph 4.d provides, then, in that event, it shall be considered for all purposes that there is no production or no excuse for delayed production of gas from any such well or wells and unless there is then in effect other preservation provisions of this Lease, this Lease shall terminate at midnight on the last day provided for the payment of such shut-in royalties, and Lessee shall thereupon furnish to Lessor a release of all of Lessee's interest in and to this Lease.

e. **Compensatory Royalty.** If, during the term of this Lease, oil or gas should be produced and/or sold in paying quantities from a well situated within 1,000 feet of the Lands or lands pooled therewith, or where drainage is occurring from lands not owned by Lessor (all such wells being referred to as "Offset Wells"), Lessee shall, at its option, and subject to the requirements of any regulatory agency having jurisdiction, elect to either drill a well to protect against such drainage, or pay to Lessor the greater of: (A) an amount equal to the Royalty Share times the amount of production from the Offset Well, as reported to the regulatory agency having jurisdiction and revenue payments for such Royalty Share shall be calculated pursuant to the price provisions in Paragraphs 4.a, 4.b, 4.c and 4.h herein or (B) \$100.00 per year. Lessee shall elect such option in writing retroactively to the date of first production, said election being made within 60 days of the date that production from the Offset Well is first reported to the agency having jurisdiction if Lessee does not own an interest in the said Offset Well and within 120 days of the date production commences from the Offset Well if Lessee does own an interest in said Offset Well. If no election is made as set forth herein, then Lessee shall have been deemed to elect option (A) herein.

f. **Place of Payment.**

(1) **Production Royalties.** Except as specifically provided above, all royalties due under the provisions of Paragraphs 4.a, 4.b, 4.c, 4.d or 4.e shall be paid to Lessor free and clear of all costs and expenses of making such oil, gas or gas products merchantable or otherwise treating or transporting the same at the address specified below:

Republic Royalty Company
P. O. Box 840-127
Dallas, Texas 75284-0127

Lessee shall use Lessee's best efforts to cause all royalty payments due Lessor under the provisions of Paragraphs 4.a, 4.b or 4.c to be paid to Lessor directly by the purchaser of the oil, gas and products. Payment of royalties shall be received by Lessor within 30 days of the end of the calendar month during which oil is sold and within 60 days of the end of the calendar month during which gas is sold.

(2) **Shut-In Royalties and Compensatory Royalties.** In respect of any shut-in royalty due under Paragraph 4.d and the compensatory royalty due under Paragraph 4.e, Lessee shall tender and pay such royalties by certified or cashier's check delivered in the same manner and at the same address as notices are required to be delivered under the provisions of Paragraph 15 hereof.

g. **Division Orders.** The execution of a division order shall not be required as a condition or prerequisite for royalty payments under this Lease.

h. **Product Prices and Additional Consideration.** It is expressly understood and agreed by, and is the intent of Lessor and Lessee that Lessor's royalty payments shall include the total amount realized by Lessee and its affiliates for (A) any and all products produced from the Lands and lands pooled therewith to this Lease (including any and all marketing premiums and bonuses, litigation settlements and awards), and (B) all other consideration received by Lessee in any way related to ownership, operations or association with the Lands or lands pooled therewith. Nothing contained in Paragraphs 4.a, 4.b, 4.c and 4.h shall relieve Lessee of its express fiduciary obligation to obtain the maximum possible price for Lessor's share of production, and Lessee hereby acknowledges this express obligation and duty.

i. **"Lessee" and "Affiliate" Defined.** For the purpose of this Lease, the term "affiliate" shall be defined as any person, entity or enterprise with which Lessee and/or its owner(s), officers, agents or representatives have ownership and/or any other relationship, which ownership may afford said Lessee and its owner(s), officers, agents, or representatives any opportunity for profit, discretion or control. For the purpose of this Lease, the term "Lessee" shall mean to include the party described as Lessee above and any and all of its affiliates.

5. **Pooling and Unitization.** Unless Lessee obtains the prior written consent of Lessor, which consent may be withheld for any reason (or for no reason), at Lessor's sole discretion, Lessee shall not pool or unitize all or any portion of the Lands with any other land, lease or leases. A unit validly created with Lessor's prior written consent, and otherwise created pursuant to law, rule or regulation of any agency having jurisdiction, shall be valid and effective for all purposes of this Lease even though there may

be mineral, royalty or other interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, operations conducted upon the Lands under this Lease. There shall be allocated to the lands within each such unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) that proportion of the total production of unitized oil or gas or both from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this Lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, to be the entire production of unitized oil or gas from the land to which allocated in the same manner as though produced therefrom under the terms of this Lease. The formation of any unit hereunder which includes land not covered by this Lease shall not have the effect of exchanging or transferring any interest under this Lease (including, without limitation, any shut-in or compensatory royalty which may become payable under this Lease) between parties owning interests in Lands covered by this Lease and parties owning interests in land not covered by this Lease. Neither shall it impair the right or obligations of Lessee to release as provided in Paragraph 7, except that Lessee may not so release as to Lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to Lands within the unit. At any time while this Lease is in force, Lessee may dissolve any unit established hereunder by filing for record in the public office where this Lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provision of this Paragraph 5, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force.

6. **No Delay Rentals.** This Lease is a "paid-up" lease, and no delay rentals shall be required to be paid by Lessee

7. **Releases.**

a. **Voluntary.** Lessee may at any time and from time to time execute and deliver to Lessor or file for record a release or releases of this Lease as to any part or all of the Lands or of any horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this Lease is released as to a portion of the Lands, any payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this Lease immediately prior to such release.

b. **Required.** After the cessation of Continuous Drilling Operations (hereinafter defined), all of the Lands which are not included within a Retained Well Site shall be permanently released from the provisions of this Lease as well as all depths from 100 feet below the stratigraphic equivalent of the deepest depth then producing in any Retained Well Site Tract, and Lessee shall file a written release thereof in the official records of the county and state identified in Exhibit "A" within 30 days of the incident thereof.

If Lessee fails, for any reason, to furnish any release or releases required by this Lease within 30 calendar days of the time required, then, if Lessor has determined in good faith that this Lease has terminated with respect to any part or all of the Lands or that any unit has dissolved, Lessor may, at Lessor's option, prepare, execute and file an affidavit, release or other recordable instrument to effect such release, and when recorded, such affidavit, release or instrument shall have the same force and effect as if executed by Lessee. For this purpose, Lessor, in preparing, executing and filing such affidavit, release or other instrument shall be deemed to be the agent of Lessee.

8. **Operations.** If oil or gas is not being produced in paying quantities from the Lands on the Expiration Date and the Lessee is not conducting Operations on the Lands, this Lease shall immediately terminate. If oil or gas is not being produced in paying quantities from the Lands on the Expiration Date, but Lessee is conducting Operations on the Lands, this Lease shall remain in force and effect as to the Lands so long, and only so long, as Lessee shall conduct Continuous Drilling Operations on the Lands. For the purposes of this Lease the term "Operations" shall mean operations for and any of the following: actual drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas. For the purposes of this Lease, the term "Continuous Drilling Operations" shall mean that not more than 90 days shall expire between the date of completion of a well or the abandonment as a dry hole of a well (such date to be deemed the earlier of (i) the filing of a Well Completion Report with any agency having jurisdiction in the premises (the "Agency") or (ii) the date of which the rig is removed from the well site) and the commencement of Actual Drilling Operations for the drilling of the next succeeding well to the development of the Lands to the density of maximum allowable production. For the purposes of this Lease, the commencement of "Actual Drilling Operations" shall mean the first operation conducted after the conductor casing has been driven, spudding operations have been completed and the kelly has been raised and the first joint of drill pipe has been secured on the drill stem. If Lessee commences Actual Drilling Operations on a well within less than 90 days after the date of completion or abandonment of the previous well, the difference shall NOT be credited towards the next period of time for the commencement of the next well nor carried forward or cumulated in any manner.

If Lessee fails to conduct Continuous Drilling Operations on the Lands at any time after the Expiration Date, this Lease shall thereupon terminate as to all Lands save and except (i) those tracts around wells then producing oil or gas in paying quantities (the "Retained Well Site Tracts") and (ii) such rights-of-way and easements across the remainder of the Lands for such pipelines and roads as may be necessary for production and operations on the Retained Well Site Tracts. A well upon which shut-in royalty payments are being paid as provided in Paragraph 4 d shall be deemed as producing gas in paying quantities. The Retained Well Site Tracts shall be designated in strict compliance with the following:

a. **Shape of Retained Well Site Tract.** Each Retained Well Site Tract shall be in as nearly the form of a square as possible, with the sides parallel to the sides of the Lands, with one side coinciding with one side of the Lands, if possible, and with the well thereon located at, or as near as possible to, the center of such area.

b. **Size of Retained Well Site Tract.** The Retained Well Site Tract shall for each well then producing oil or gas consist of not more than the number of surface acres of contiguous land around each such well which is the smallest size then prescribed or permitted by the Agency as the minimum proration unit for obtaining the maximum allowable production of oil or gas from such well. For either oil or gas wells, a Retained Well Site Tract shall be limited to a depth 100 feet below the stratigraphic equivalent of the deepest depth then producing by Lessee in such Retained Well Site Tract.

c. **Boundaries of Retained Well Site Tract.** The exact boundaries of each Retained Well Site Tract shall be, selected and designated by Lessee, in compliance with the foregoing requirements, and Lessee shall provide Lessor with a description of Each Retained Well Site tract as created.

If, at any time after the Expiration Date, Operations are conducted on any Retained Well Site Tract and if all Operations are discontinued on such Retained Well Site Tract this Lease shall terminate with respect to such Retained Well Site Tract on the 30th day

following such discontinuance unless on or before such date either (i) Lessee commences production or resumes Operations on such Retained Wellsite Tract or (ii) the shut-in well provisions of Paragraph 4.d are applicable to such Retained Wellsite Tract. Should any well or wells located on a Retained Wellsite Tract be recompleted to a lesser depth, the size and shape of the Retained Wellsite Tract shall be modified to conform with the terms of this Lease.

9. **Removal of Casing.** Lessee shall have the right at any time to remove all machinery and fixtures placed on the Lands by Lessee, including the right to draw and remove casing.

10. **Assignments.** The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any mineral or horizon, provided, however, that, due to the special relationship of trust and confidence between Lessor and Lessee, any assignment of any interest (whether working, overriding royalty, production payment, mortgage, or deed of trust) in this Lease by Lessee without the prior written consent of Lessor, which may be withheld for any reason (or for no reason) at Lessor's sole discretion, shall be void, and such purported assignment of this Lease by the Lessee shall automatically terminate this Lease. Lessee shall provide Lessor with a copy of any such proposed assignment (or other instrument). As a further express condition to such approval as may be granted by Lessor, Lessee shall furnish to Lessor a true or certified copy of all such assignments and fully inform Lessor of the identity and address of any such assignee within thirty (30) days of execution. The provisions of this Paragraph 10 shall be applicable to any type of assignment, sublease, conveyance or transfer of all or a portion of this Lease or rights or interest thereunder. All of the covenants, obligations, and considerations of this Lease shall extend to and be binding upon the parties hereto, their respective permitted successors-in-title and assigns.

11. **Proportionate Reduction.** If this Lease covers a less interest in the oil or gas in all or any part of the Lands than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), then the royalties to be paid to Lessor hereunder as to the Lands, shall be paid only in the proportion which the interest therein, if any, covered by this Lease, bears to the whole and undivided fee simple estate therein. The provisions of this Paragraph 11 shall have no application to the provisions of Paragraphs 4.d or 4.e.

12. **Substances Covered.** This Lease covers oil, gas, casinghead gas, other gaseous substances and associated hydrocarbons in either a liquid or gaseous phase or state and such minerals as may be produced in association with the production of oil, gas, casinghead gas, other gaseous substances and associated hydrocarbons; provided, however, that nothing in this Lease shall be deemed to authorize the gasification or in situ combustion of coal or lignite, and this Lease shall not be deemed to cover either coal or lignite. The classification of a well as either a gas well or oil well by the Agency shall be conclusive in respect of its classification under the terms of this Lease.

13. **Information Required.** As a further condition for this Lease and not a covenant only, Lessee agrees to furnish to Lessor, at the address specified on the signature page hereof, within 48 hours of becoming available, unless stated otherwise below, true and correct copies of the following information:

- (1) When filed with the Agency, an official survey plat showing the location of any well proposed to be drilled on the Lands or on lands pooled therewith if authorized by the Lease.
- (2) Application to drill duly approved by the Agency, or if a separate drilling permit is issued, the drilling permit;
- (3) Written notification of commencement of any operations;
- (4) Daily drilling report for each well transmitted daily by telecopy;
- (5) All logging surveys, wireline tests, drillstem test charts, core analyses or other third party information as may be run or prepared in the drilling of such well;
- (6) Potential test or completion report filed with the Agency;
- (7) Notification of first sales of oil and/or gas from such well;
- (8) Plugging record, if completed as a dry hole or if subsequently abandoned;
- (9) Any information Lessee obtains with respect to the Lands or lands pooled therewith or any well or wells on the Lands or lands pooled therewith (including, without limitation, title opinions, information with respect to offset wells, copies of all of Lessee's geophysical and geological interpretations including, but not limited to, original time, depth and amplitude displays on intervals and/or horizons to be selected by Lessor, and any other geologic and geophysical surveys, whether by wireline seismograph, gravity, magnetic or other non-intrusive activity). For the purpose of this paragraph 13.(9), the term offset wells is defined as any well within 6000 feet of any boundary or corner of the Lands.
- (10) A fully executed and recorded copy of this Lease

Lessee hereby acknowledges Lessor's right of access to all operations conducted on the leased premises, including the drilling rig, wireline logging truck or trailer, mud logger's truck or trailer and the right to inspect all surveys, tests, cores and cuttings obtained thereby. All books, accounts and other records pertaining to operations, production, transportation, sale and marketing of oil, gas or products from the Lands including reserve reports, geological or geophysical interpretations and all correspondence with other working interest owners shall at any time during normal business hours be subject to inspection and examination by Lessor and its representatives. Any harm or injury incurred by Lessor as a result of such access to operations shall be solely at Lessor's risk.

14. **Force Majeure.** Lessee shall not be liable for any delays in Lessee's performance of any covenant or condition hereunder, express or implied, or for total or partial non-performance thereof, due to force majeure. The term "force majeure", as used herein, shall mean any circumstance or any condition beyond the control of Lessee, including acts of God and actions of the elements, acts of the public enemy, strikes, lockouts, accidents, laws, acts, rules, regulations and orders of federal, state or municipal governments, or officers or agents thereof. If Lessee is required to cease drilling or reworking or producing operations on the Lands (or lands properly pooled under provisions of this Lease) by force majeure, then until such time as such force majeure is terminated, and for a period of 30 days after such termination, each and every provision of this Lease that might operate to terminate it shall be suspended and this Lease shall continue in full force and effect during such suspension period. As an inducement to Lessor's

agreement to this paragraph, Lessee expressly waives any statute of limitations or estoppel defense to any claims made by Lessor pursuant to this Lease. If any period of suspension occurs before the Expiration Date, the term thereof shall be added to such Primary Term provided, however that the Lease may not be extended by such suspension for more than twelve (12) months beyond the expiration of the Primary Term. The provisions of this Paragraph 14 shall have no applicability in respect of any payments required to be made under any provision of this Lease, it being expressly understood and agreed that the provisions of this Paragraph 14 shall not override or modify any requirement of such payments.

15. **Notice.** All communications, notices and information required hereunder shall be in writing and shall be deemed to have been properly served when received by mail, telegraph or telecopy at the addresses set forth on the signature page hereto. In respect of any payments required under the provisions of Paragraph 4.f(2) no such payment shall be deemed to be received until actually received by Lessor.

16. **Implied Covenants.** None of the covenants contained in this Lease shall negate or in any way limit or serve in lieu of any implied covenant available to Lessor, including, without limitation, the implied covenants to further develop, to market and to protect against drainage.

17. **Environmental Issues.** Lessee shall comply with all environmental laws and regulations in the conduct of all drilling and producing operations on the Lands and agrees that Lessee shall not store nor dispose of toxic or hazardous chemicals or wastes on the Lands. Lessee shall indemnify and hold Lessor harmless from any loss or damage Lessor may suffer as a result of any environmental damage or pollution which shall occur as the direct or indirect result of the operations conducted by Lessee, whether before, during or after the Primary Term hereof.

18. **Indemnification.** Lessee agrees to indemnify and hold harmless Lessor from and against any and all claims resulting from or arising out of or in connection with operations of or for Lessee hereunder, and from and against all costs and expenses incurred by Lessor from and against any and all claims. Each assignee claiming hereunder agrees to indemnify and hold harmless Lessor from and against any and all claims resulting from or arising out of or in connection with operations of or for such assignee hereunder, and from and against all costs and expenses incurred by Lessor by reason of such claim or claims.

19. **Remedy for Breach.** Due to the difficulty in ascertaining damages for Lessee's breach, default or non-performance (collectively herein called "Default") of any covenant contained in this Lease, the parties hereto agree that in the event of Lessee's Default, then Lessor may, at Lessor's sole option immediately (i) terminate this Lease, (ii) terminate this Lease and collect from Lessee all monies due hereunder or (iii) collect from Lessee all monies due hereunder.

20. **Most Favored Nations Agreement.** Notwithstanding anything contained herein to the contrary, if during the term hereof Lessee enters into or acquires an interest in any oil and gas lease from a third party ("Third Party Lease") covering all or any portion of the Lands or lands pooled therewith, by lease, assignment, farmout or otherwise, and which instrument provides for total burdens or other consideration (including cash bonus) greater than the Royalty Share or other consideration (including cash bonus) provided in connection with Lessee's acquisition of this Lease, Lessee shall immediately notify Lessor. In such event, the Royalty Share herein reserved by Lessor shall immediately and retroactively be increased to equal the total royalties and/or other burdens reserved under such instrument and payment shall be made to reflect any difference in any other consideration. Lessee shall promptly execute and deliver to Lessor an amendment to this Lease in recordable form to reflect the increase in Royalty Share.

21. **Lessor and Lessee agree and acknowledge that the mineral interest owned by Lessor in the Lands is subject to a Conveyance of Overriding Royalty Interest ("Conveyance") in favor of certain third parties which has been recorded in Volume , Page of the Records of County, . Lessee hereby agrees and acknowledges that, in accordance with Section 10.13 of said Conveyance, all payments due pursuant to Paragraphs 4 and 6 hereof shall be paid directly to Lessor in the manner set forth in Paragraph 4 hereof. The Conveyance does not create additional burden to be borne by Lessee; all payments attributable to this interest are to be paid by Lessor and are payable out of the Royalty Share retained herein by Lessor.**

IN WITNESS WHEREOF, this Lease is executed on the date of the acknowledgments attached hereto, but shall be effective as of the Effective Date recited above. This Lease shall not be binding on any party until executed by all parties hereto.

LESSOR: REPUBLIC ROYALTY COMPANY
(Tax I.D. No. 75-2497442)
3738 Oak Lawn Avenue, Suite 300
Dallas, Texas 75219-4379
Telephone Number: 214-559-0300
Telecopy Number: 214-559-0301

By: SAM Partners, Inc., General Partner

By: _____
Casey McManis, Vice President

LESSEE: Address _____

Telephone No. _____
Telecopy No. _____

By: _____
Name _____
Title _____

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STATE OF TEXAS §
COUNTY OF DALLAS §

The foregoing instrument was acknowledged before me this _____ day of _____, 2001, by Casey McManemin, Vice President of SAM Partners, Inc., General Partner of Republic Royalty Company, a Texas General Partnership.

My Commission Expires: _____
Notary Public in and for the State of Texas

STATE OF _____ §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this _____ day of _____, 2001, by _____, as _____ of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____
Notary Public in and for the State of _____

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EXHIBIT "A"

446 Attached to and made a part of that certain Oil and Gas Lease dated _____ by and between Republic Royalty Company
447 ("Lessor") and _____, ("Lessee"), covering _____ acres, more or less, in _____ County, _____.

cc: Kathie
w/JOA

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

July 24, 2002

Mr. Bill Owen
David Petroleum Corp.
McMillan Production Company
116 West First Street
Roswell, New Mexico 88201


RE: Operating Agreement dated July 24, 2002
S/2 SW/4 of Section 10, T-17-S, R-37-E
Lea County, New Mexico
Voyager Prospect

Dear Bill:

Pursuant to both David Petroleum Corp.'s and McMillan Production Company's election to participate for their working interest share of the Nearburg Voyager-Shipp "10" #1 well, enclosed herewith please find an operating agreement covering the captioned acreage. The operating agreement provides for commencement of the Voyager-Shipp "10" #1-Y well on or before January 1, 2003 at a surface location of 990' FSL and 330' FWL of Section 10 and a bottomhole location of 860' FSL and 1,400' FWL of said section. The well will be drilled to a depth of 11,500' sufficient to test the Strawn. The operating agreement is furnished prior to the compulsory pooling hearing scheduled for August 1, 2002. We would appreciate your review, approval and execution of the operating agreement prior to the pooling deadline. Please execute and return the extra set of signature pages provided.

If you have any questions or concerns with regard to the operating agreement, please feel free to contact the me.

Yours very truly,



Bob Shelton
Land Manager

BS/dw
encl.

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7805

July 24, 2002

Mr. Eric Hansen
Hanley Petroleum, Inc.
415 West Wall, Suite 1500
Midland, Texas 79701

RE: Operating Agreement dated July 24, 2002
S/2 SW/4 of Section 10, T-17-S, R-37-E
Lea County, New Mexico
Voyager Prospect

Dear Eric:

Pursuant to Hanley's election to participate for its pro-rata working interest share of the Nearburg Voyager-Shipp "10" #1 well, enclosed herewith please find an operating agreement covering the captioned acreage. The operating agreement provides for commencement of the Voyager-Shipp "10" #1-Y well on or before January 1, 2003 at a surface location of 990' FSL and 330' FWL of Section 10 and a bottomhole location of 860' FSL and 1,400' FWL of said section. The well will be drilled to a depth of 11,500' sufficient to test the Strawn. The operating agreement is furnished prior to the compulsory pooling hearing scheduled for August 1, 2002. We would appreciate your review, approval and execution of the operating agreement prior to the pooling deadline. Please execute and return the extra set of signature pages provided.

If you have any questions or concerns with regard to the operating agreement, please feel free to contact the me.

Yours very truly,



Bob Shelton
Land Manager

BS/dw
encl.

Date: July 31, 2002

To: New Mexico Oil Conservation Division

From: Bob Shelton/Craig Clark

RE: **Voyager Prospect**
S/2 SW/4 of Section 10
T-17-S, R-37-E
Lea County, New Mexico

We have proposed to re-enter the Shipp #1 well and drill to a bottom hole location of 860' FSL and 1,400' FWL of Section 10. The well is in the Humble City-Strawn pool and will be an unorthodox location. Well proposals were mailed out on May 29, 2002. The following parties will need to be forced pooled:

Conoco, Inc. 37.5% WI 30.46875% NRI, (81.25% NRI) Carl Sherrill (686-6152)

- 6/14 Left message.
- 6/24 Left message.
- 7/01 Left message, told him we would show geology if they sign a letter committing their interest.
- 7/12 Left message to see where they are on this.
- 7/15 Carl Sherrill says he is going to prepare a letter today agreeing to terms if NEC shows Conoco the G&G. Told him to send the letter to Bob Shelton.
- 7/17 Conversation with Carl Sherrill offered to set up appt on 7/18-19 to show prospect geology and geophysics. Sherrill working on letter agreement to participate or Term Assignment.
- 7/18 Executed L/A for Conoco to review prospect. Reviewed in our office 7/18. Election due 8/8/02.

Chesapeake Exploration, L.P. 1.5625% WI 1.17875% NRI (75% NRI) Lynda Townsend (405) 879-9414

- 6/24 They want to farmout delivering 75% NRI BPO (no orri) and a 25% BI.
- 7/01 Left message - told her economics cannot afford a back-in.
- 7/25 Told Lynda we will not take a back-in. They can either participate with the WI or we will take their interest by pooling. She is going to check with management and let me know.

Petrovaughn, Inc. 2.34375% WI & NRI (Minerals) Jack McDowell (972) 664-0664

- 6/14 Left message.
- 6/24 They will do whatever Republic Royalty does.
- 7/01 Requested copy of lease form. They use same form as Republic.
- 7/25 Left message and told him that Republic's lease form is not acceptable. We have requested changes to lease form but will pool interest if it is not resolved.

Republic Royalty Company 0.78125% WI & NRI, (Minerals) Terry Farmer (214) 559-0300

- 6/24 She is out of town for a couple of weeks. Will have someone else call me back.
- 7/01 Out-of-town unit 7/8. Left message.
- 7/12 Left message.
- 7/16 Received lease form from Republic.
- 7/17 Wrote Republic Royalty lease form unacceptable, asked for specific amendments.

July 31, 2002

Page Two

David Petroleum and Colin R. McMillan 10% WI & NRI (Minerals) Bill Owen (505) 622-8850

- 6/14 Left message.
- 6/24 They have offered to lease for 25% royalty and 25% back-in APO.
- 7/16 Appt. set up to review prospect geology and geophysics on 7/18/02. 9:00 a.m.
- 7/18 Showed geology and geophysics to Colin, Mike and Eddie David -- Said they would participate. Have not signed JOA or AFE.
- 7/23 Per Bill Owen they have signed the AFE. I will forward O/A.
- 7/24 Received executed AFE. Mailed O/A to David and McMillan for review and approval.

Hanley Petroleum 1.5625% WI & NRI (Minerals) Eric Hansen 684-8051

- 6/14 They will probably participate. Would be interested in acquiring additional interest.
- 7/25 Telephone conversation with Eric Hanson. Agreed to show Hanley G&G presentation if they will sign an L/A requiring an election to either participate or lease within 10 days.
- 7/29 Prepared and forward L/A to Hanley to G&G presentation on 7/30.