

C. Mark Maloney
Independent Landman
P. O. Box 2627
Roswell, NM 88202-2627

(505) 622-9907 *Voice*
(505) 622-8340 *Fax*

December 15, 2000

Attn: Mr. Nelson B. Spear
Sun-West Oil & Gas, Inc.
P.O. Box 309
Hobbs, NM 88241

Re: Oil and Gas Lease
W1/2 Sec. 30, T-9-S, R-33-E, NMPM
McGuffin Prospect
Lea County, New Mexico

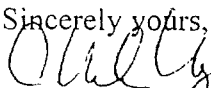
Dear Mr. Spear:

Enclosed please find original and one copy of Oil and Gas Lease for your review, along with bank draft in the amount of \$ 2,393.50 representing our consideration of \$ 50.00 per net acre for your execution of our proposed oil and gas lease. The lease is a paid-up three (3) year primary term lease, provides for a royalty of 3/16, and the provision on the pre-printed form allowing for the deduction of certain costs associated with gas production has been stricken.

If this meets with your approval, please execute the original of our lease, have your signature acknowledged before a Notary Public, and return the executed and acknowledged lease, along with your endorsed bank draft, to our bank in Roswell for collection. The Collections Department at your bank will do this for you. Please retain the copy of our lease for your files.

Please feel free to call or fax at the above letterhead numbers should you have any questions. Thank you very much for your attention in this matter and Happy Holidays.

Sincerely yours,



C. Mark Maloney

cmm/wp2
encs.

010009

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12601 Exhibit No. 3
Submitted by:
Bettis, Boyle & Stovall
Hearing Date: April 19, 2001

OIL & GAS LEASE

THIS AGREEMENT made this 15th day of December 2 000 between

Sun-West Oil & Gas, Inc., a Texas corporation

P.O. Box 788

Hobbs, NM 88241-0788

of _____
(Post Office Address)

herein called lessor (whether one or more) and W. T. Probandt, 415 W. Wall St., Suite 2206, Midland, TX 79701, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Lea County, New Mexico, to-wit:

Township 9 South, Range 33 East, NMPM
Section 30: Lots 1, 2, 3, 4, E₂W₂

Said land is estimated to comprise 319.13 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance

produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, 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. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Sun-West Oil & Gas, Inc.,
a Texas corporation

Executed the day and year first above written.

By:

Shane Spear, President

006100

OIL & GAS LEASE

THIS AGREEMENT made this 15th day of December 2 000 between
Sun-West Oil & Gas, Inc., a Texas corporation
P.O. Box 309
Hobbs, NM 88241 of _____
 _____ (Post Office Address)

herein called lessor (whether one or more) and W.T. Probandt, 415 W. Wall St., Suite 2206, Midland, TX 79701, lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in _____ Lea County, New Mexico, to-wit:

Township 9 South, Range 33 East, NMPM
Section 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$

Said land is estimated to comprise 319.13 acres, whether it actually comprises more or less. three (3)

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produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 3/16 of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.~~

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11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Sun-West Oil & Gas, Inc.,
 a Texas corporation

Executed the day and year first above written.

000101

By: Nelson B. Spear, President

C. Mark Maloney
Independent Landman
P. O. Box 2627
Roswell, NM 88202-2627

(505) 622-9907 *Voice*
(505) 622-8340 *Fax*

January 20, 2001

Sun-West Oil & Gas, Inc.
P.O. Box 788
Hobbs, NM 88241-0788

Certified Mail/Return Receipt Requested
7099 3400 0018 4123 9864

Attn: Mr. Shane Spear, President

Re: Oil and Gas Lease
W1/2 Sec. 30, T-9-S, R-33-E, NMPM
McGuffin Prospect
Lea County, New Mexico


Dear Shane:

Referencing our previous conversations on this, we felt we should make one more attempt to acquire a lease on Sun-West's unleased mineral interest under the captioned lands.

As discussed in our last conversation, we have had to increase our offer to \$ 100.00 per net mineral acre to acquire the larger unleased interests under this tract and will do the same for your interest (our original offer was based on a bonus consideration of \$ 50.00 per net acre). We still, however, cannot agree to a one-quarter royalty lease on this prospect. Again referencing our most recent conversation, we would include a Pugh clause for your interest, providing for a continuous development program at the expiration of the primary term (which we have not done for any other interest to this point).

We do, however, hope to begin drilling operations out there as soon as possible to try to take advantage of the current high product prices. Unfortunately, we are subject to rig availability (which is tight as you know) and need to have our acreage ready to drill should a rig become available. Bettis, Boyle and Stovall will operate. We will keep this offer open for thirty (30) days from the date of this letter. Should you wish to discuss this further, please feel free to call (or fax) at the above letterhead number and we will do our best to answer any questions you might have.

Hoping you had a good hunting trip over the Holidays and a Happy New Year.

Very truly yours,

C. Mark Maloney

P. O. Box 788
Hobbs, New Mexico 88241-0788
(505) 393-8097 Fax 397-4621

January 25, 2001

Mr. C. Mark Maloney
Independent Landman
P. O. Box 2627
Roswell, New Mexico 88202-2627


RE: Oil and Gas Lease
W/2 Section 30, T9S, R33E, NMPM
McGuffin Prospect
Lea County, New Mexico

Dear Mr. Maloney:

Thank you for your letter of January 20th. We are willing to lease the referenced property on the following terms:

- 1/4 royalty;
- \$150.00 per acre bonus
- 3-year paid up lease, mutually agreeable lease form
- Pugh and Continuous Operation clauses as attached

Thank you for your consideration.


Shane Spear
President

Enclosures as stated

010103

EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated _____,
by and between _____ as Lessor, and _____, as Lessee, and
covering the

14. Pugh Clause and Continuous Drilling Requirement.

At any time commencing subsequent to (1) the end of the primary term or (2) one year after the completion of actual drilling of any well being drilled hereunder at the end of the primary term, whichever is later, upon the lapse of any period of one hundred twenty (120) successive days during which no actual drilling is conducted on the lease premises, this lease (if not sooner terminated) shall terminate and be released of legal record by Lessee as to all of the land covered hereby, **SAVE AND EXCEPT THE DEVELOPED ACREAGE.** The term "actual drilling" as used herein shall mean down hole operations for the purpose of obtaining production of oil or gas conducted with a rotary rig or its equivalent capable of expeditious drilling to a depth of at least 4,500 feet below the surface of the ground. For purposes hereof, only the following shall be deemed developed acreage:

(i) The minimum acreage (as nearly in the form of a square or rectangle as practicable) in a proration unit properly assigned to a completed well capable of producing oil or gas in commercial quantities to qualify such well for maximum proration allowable under law and governmental rules and regulations establishing applicable field rules. For purposes hereof, statewide rules shall not be regarded as field rules.

(ii) In the absence of field rules fixing the allowable production in relation to assigned acreage, each such proration unit shall contain the acreage assigned to each well capable of producing oil or gas in commercial quantities as follows: 40 acres or less for each oil well and 160 acres or less for each gas well.

(iii) All depths down to (but not greater than) 100 feet below the deepest depth at which a well has been completed capable of producing oil or gas in paying quantities in and as to each such respectively assigned proration unit.

SIGNED FOR IDENTIFICATION _____, day of _____, 200__.

Shane Spear, President
Sun-West Oil & Gas, Inc.