

## CHRONOLOGY

December 15, 2000 Letter to Sun-West Oil & Gas, Inc. from Bettis, Boyle & Stovall proposing to lease its interest for the drilling of a well in the W/2 of Section 30, Township 9 South, Range 33 East, NMPM, Lea County, New Mexico.

January 20, 2001 Letter to Sun-West Oil & Gas, Inc. from Bettis, Boyle & Stovall referencing prior conversations and advising that a 25% royalty was unacceptable. Bettis, Boyle & Stovall expressed interest in drilling as soon as possible to take advantage of current high product prices.

January 30, 2001 Application for compulsory pooling filed at Oil Conservation Division by Bettis, Boyle & Stovall.

January 25, 2001 Letter to Bettis, Boyle & Stovall from Sun-West Oil & Gas, Inc. offering to lease for a 25% royalty.

February 6, 2001 Application for compulsory pooling and notice of hearing received by Sun-West Oil & Gas, Inc.

✓ February 15, 2001 Lease by Sun-West Oil & Gas, Inc. to Gulf Coast Oil & Gas Company of Sun-West interest in Spacing units at a 27.5% royalty.

February 20, 2001 Letter to William F. Carr, attorney for Bettis Boyle and Stovall, from Sun-West Oil & Gas, Inc. acknowledging receipt of the application for compulsory pooling and advising that their interest had been leased for a 27.5% royalty.

February 21, 2001 Gulf Coast Oil & Gas Company lease recorded in Lea County, New Mexico.

March 22, 2001 Letter to Gulf Coast Oil & Gas Company from Bettis, Boyle & Stovall offering them an opportunity to join in the well and advising them that Bettis, Boyle & Stovall cannot carry a 27.5% royalty.

March 23, 2001 Telephone from Shane Spear advising Mark Maloney that Sun-West Oil & Gas, Inc. and Gulf Coast Oil & Gas, Company were essentially the same entities.

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12601 Exhibit No. 3  
Submitted by:  
Bettis, Boyle & Stovall  
Hearing Date: May 31, 2001

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Printed and for sale by Hall-Poorbaugh Press, Postville, N.M.

## OIL & GAS LEASE

THIS AGREEMENT made this 15th day of February, 2001, between

P. O. Box 738

Hobbs, New Mexico 88241

Post Office Address

Gulf Coast Oil & Gas Company, P.O.Box 1694, Midland, Texas 79702 has been called lessor (whether one or more) and

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which has been acknowledged, and of the royalties herein provided and of the contents of the Well Indemnity contained, borehole logs, leases and has previously well known for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, including gas, water, other fluids, and other substances and/or having one line, storing oil, bulking tanks, roadways, telephone lines, and other structures and facilities to produce, store, transport and sell

Lea County, New Mexico, to-wit:

Lots 3 and 4 (W/2SW/4 Equivalent); T9S, R33E, Section 30

Said land is estimated to comprise 79.73 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 One (1) Year years from this date (called "primary term") and so 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 lessor to, for oil and/or other liquid hydrocarbons saved at the well of 27 1/2 of the oil produced and saved from said land, and to be delivered at the well or by the credit of reason in the pipeline to which the well may be connected, for gas, including casinghead gas or other gaseous hydrocarbons produced from said land and used in the operation or used in the manufacture of products or other products, the market value of the well of 27 1/2 of the gas used.

[illegible]

\* This is a zero-up lease and lessee shall not be obligated during the primary term period 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 in Paragraph 3 hereof.

[illegible]

6. If the expiration of the primary term is to be well upon said land capable of producing oil or gas, but because has commenced operations in drilling or reworking thereon, it is less than eleven (11) years, then the lease shall be extended for a period of not less 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 have been plugged and abandoned, then the lease shall terminate. If, after the expiration of the primary term, no operations have been commenced on the land, then, if any operations are commenced on the land, the lease shall be extended for a period of not less 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, no operations have been commenced on the land, then, if any operations are commenced on the land, the lease shall be extended for a period of not less 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.

[illegible]

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 assignment shall be binding on the other party hereunder unless it is in writing and is duly acknowledged by the assignor. The obligations of either party hereunder shall survive the death or disability of either party to this lease, and no such change or deviation shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessor's principal place of business with acceptable instruments so certified copies thereof constituting the chain of title from the original lease. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any monies or shall be entitled 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 person entitled to such sums. An assignment of this lease in whole or in part, to the extent of such assignment, shall constitute a release of all obligations of the assignor and, if lessee so assigns or part or parts thereof shall fail or make default in the payment of the provisions of this lease or shall fail to perform any of its obligations hereunder, then the assignor shall be liable for the performance of this lease, each default shall not be a part of said law to which lessee or any assignee thereof shall properly comply or make such payments.

[illegible]

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at his option may discharge any tax, mortgage or other lien upon said land, and in the event he does so he 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 lessor's rights under the warranty, if this lease covers a gas interest in the oil or gas in all or any part of said land then the entire and undivided fee simple estate (whether lessor's or interests jointly owned and held) 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 interests therein, if any, covered by this lease, bears to the entire 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. Licensee, on this execution, holds and assigns, until the end of the right of any kind to surrender the lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering to lessor the sum of \$100,000.00, by which the lessor, by accepting the sum of \$100,000.00, releases the interest in the property in which said land is situated; the lessor's release shall be returned from said assignee, representing or implied of this agreement as to mortgage be surrendered, and thereafter the sum of the royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

SUBJECT TO ATTACHED ADDENDUM

Expiry: the day and year first above written.

Sun-West Oil & Gas, Inc.

By: Shane Spear  
Shane Spear, President

STATE OF NEW MEXICO

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_

by \_\_\_\_\_

My Commission expires \_\_\_\_\_, 19\_\_\_\_ Notary Public

STATE OF \_\_\_\_\_

Notary please type/print name

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_ by \_\_\_\_\_

My Commission expires \_\_\_\_\_, 19\_\_\_\_ Notary Public

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_ by \_\_\_\_\_

My Commission expires \_\_\_\_\_, 19\_\_\_\_ Notary Public

STATE OF \_\_\_\_\_

INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_ by \_\_\_\_\_

My Commission expires \_\_\_\_\_, 19\_\_\_\_ Notary Public

No. _____	OIL AND GAS LEASE NEW MEXICO
FROM	
TO	
Date _____, 19____	
Section _____ Township _____ Range _____	
No. of Acres _____	
County, New Mexico	
Term _____	
STATE OF NEW MEXICO	
COUNTY OF _____	
I hereby certify that this instrument was filed for record on the _____ day of _____ A. D. 19____ at _____ o'clock _____ m., and was duly recorded in Book _____ at Page _____ of the Records of said County.	
By _____ County Clerk	
Deputy _____	

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of LEA

The foregoing instrument was acknowledged before me this 20th day of February, 2001, at \_\_\_\_\_

by Shane J. Spivey as \_\_\_\_\_ President

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

on behalf of said corporation.

My Commission Expires August 1, 2002 Peggy G. Lantz Notary Public

STATE OF NEW MEXICO

CORPORATION ACKNOWLEDGMENT (New Mexico Short Form)

County of \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_

by \_\_\_\_\_ President

of \_\_\_\_\_ corporation

on behalf of said corporation.

My Commission Expires \_\_\_\_\_ Notary Public

ADDENDUM TO OIL AND GAS LEASE

Attached to and made a part of that certain Oil and Gas Lease, dated the 15th day of February, 2001, between Sun-West Oil & Gas, Inc., as LESSOR; and Gulf Coast Oil & Gas Company, P. O. Box 1684, Midland, Texas 79702, as LESSEE:

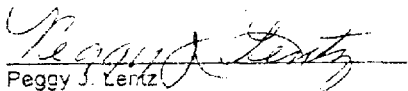
12. At the expiration of the primary term of one (1) year hereof, this Lease shall automatically terminate as to all horizons and formations located below the base of the deepest formation from which there is then commercial production of oil and/or gas from any well drilled on the leased premises pursuant to the terms of this lease.

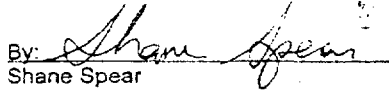
13. Notwithstanding the applicable provisions of paragraph 3 of this Lease, it is hereby understood and agreed that shut-in royalty payments for gas shall be \$5.00 per net mineral acre per annum, and it is also hereby understood and agreed that this lease cannot be extended beyond the primary term by payments of shut-in gas royalty as set out in said paragraph 3 for a longer term than two (2) years cumulative.

14. LESSEE shall require of any successor assignee to whom LESSEE may assign or transfer all or any part of the Lease or lands embraced therein to assume and agree to perform the obligations required of LESSEE under the terms of this Lease as same now exists, or as same may be amended from time to time hereafter; provided, however, that such assumption and agreement to perform by any successor or assignee shall not relieve assumption and agreement to perform by any such successor or assignee shall not relieve LESSEE from LESSEE's responsibility for performance of the obligations and duties herein.

EXECUTED the day and year first above written.

ATTEST:

  
Peggy J. Lertz

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

02086

STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

FEB 21 2001

at 9:59 o'clock A M  
and recorded in Book \_\_\_\_\_  
Page \_\_\_\_\_  
Methula Hughes, Lea County Clerk  
By DS Deputy

