

HUGHES EXHIBIT NO. 1

STATE/FEE
EXPLORATORY UNIT

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

HUECO SOUTH UNIT AREA
HIDALGO COUNTY, NEW MEXICO
NO.

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OF THE
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HIDALGO COUNTY, NEW MEXICO

NO. _____

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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

HUECO SOUTH UNIT AREA

HIDALGO COUNTY, NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 1st day of May 2003, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annot.), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Hueco South Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

SEE EXHIBIT 'B'

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Dan A. Hughes Company, L.P., whose address is 208 East Houston Street, Beeville, TX 78104, is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon

notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by an between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the ABO formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 4,500 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees or record in the

manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated), of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries ~~embracing lands of the State of New Mexico~~ shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this agreement unless at the expiration of five (5) years after the first day of the month following the effective date of this agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals due to the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty share in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practices; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INsofar AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provision of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long

as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement,

except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in 5 years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to the Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

20. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be

withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

22. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by

the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

23. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

Dan A. Hughes Company, L.P.

OPERATOR

By: Dan A. Hughes Management LLC
Its general partner

By: J. Henry Kremers, Vice President of Land

Date: _____

OTHER WORKING INTEREST OWNERS

Fort Worth Operating Company, LLC

By: _____
Bryce P. Phillips, Vice President

Date: _____

Yates Petroleum Corporation

By: _____

Date: _____

Attest:

By: _____

Harvey E. Yates Company

By: _____

Date: _____

HUGHES EXHIBIT NO. 3

EXHIBIT "B"							HUGHES EXHIBIT NO. 3	
							Hueco South Unit, Hidalgo County, New Mexico	
<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
1	T32S, R16W Section 21: All	640.00	LH4950 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
2	T32S, R16W Section 27: All	640.00	LH4951 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
3	T32S, R16W Section 28: All	640.00	LH4952 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
4	T32S, R16W Section 32: All	640.00	LH4953 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
5	T32S, R16W Section 33: All	640.00	LH4954 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
6	T32S, R16W Section 34: All	640.00	LH4955 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
7	T33S, R16W Section 4: All	641.38	LH4981 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
8	T33S, R16W Section 5: All	641.54	LH4982 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
9	T33S, R16W Section 8: All	640.00	LH4983 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
10	T33S, R16W Section 9: All	640.00	LH4984 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

*1 See attached "Schedule B-1"
*2 The Working Interest is held 80% by Dan A. Hughes and 20% by Fort Worth Operating

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<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
11	T33S, R16W Section 16: All	640.00	LH4985 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
12	T33S, R16W Section 17: All	640.00	LH4986 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
13	T33S, R16W Section 20: All	640.00	LH4987 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
14	T33S, R16W Section 21: All	640.00	LH4988 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
15	T33S, R16W Section 22: All	640.00	LH4989 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
16	T33S, R16W Section 23: All	640.00	LH4990 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
17	T33S, R16W Section 27: S/2, NE/4	480.00	LH4991 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
18	T33S, R16W Section 28: S/2, NW/4	480.00	LH4992 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
19	T33S, R16W Section 29: All	640.00	LH4993 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
20	T33S, R16W Section 32: All	640.00	LH4994 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
21	Section 33: S/2, NE/4, E/2NW/4, NW/4NW/4	600.00	LH4995 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
22	T33S, R16W Section 34: All	640.00	LH4996 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

*1 See attached "Schedule B-1"

*2 The Working Interest is held 80% by Dan A. Hughes and 20% by Fort Worth Operating

<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
23	T34S, R15W Section 10: E/2	320.00	LH5017 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
24	T34S, R15W Section 10: S/2SW/4	80.00	LH5018 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
25	T34S, R15W Section 11: W/2	320.00	LH5019 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
26	T34S, R15W Section 11: SW/4SE/4	40.00	LH5020 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
27	T34S, R15W Section 12: SW/4SE/4, SE/4SW/4	80.00	LH5021 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
28	T34S, R15W Section 13: S/2, NE/4, NE/4NW/4	520.00	LH5022 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
29	T34S, R15W Section 14: NE/4NW/4, NW/4NE/4, SE/4NE/4, E/2SE/4	200.00	LH5023 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
30	T34S, R15W Section 15: NW/4, N/2SW/4, NW/4SE/4, SE/4SE/4	320.00	LH5024 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
31	T34S, R15W Section 16: All T34S, R15W	640.00	LH5025 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
32	Section 17: S/2, S/2NE/4, NW/4NE/4, NW/4	600.00	LH5026 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
33	T34S, R15W Section 18: Lots 1,2,3, N/2NE/4, SE/4NE/4 and E/2W/2	401.01	LH5027 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
34	T34S, R15W Section 19: Lot 2, SW/4NE/4 and NE/4NW/4	100.65	LH5028 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
35	T34S, R15W Section 20: N/2NE/4 T34S, R15W Section 21: NW/4NW/4	80.00	LH5029 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
36		40.00	LH5030 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
37	T34S, R15W Section 23: N/2NE/4	80.00	LH5031 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
38	T34S, R16W Section 4: All	646.41	LH5032 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
39	T34S, R16W Section 5: All	644.12	LH5033 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
40	T34S, R16W Section 8: All	640.00	LH5034 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
41	T34S, R16W Section 9: All	640.00	LH5035 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
42	T34S, R16W Section 10: All	640.00	LH5036 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
43	T34S, R16W Section 14: All	640.00	LH5037 1/1/08 ✓	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
44	T34S, R16W Section 15: All	640.00	✓ LH5038 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
45	T34S, R16W Section 16: All	640.00	✓ LH5039 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
46	T34S, R16W Section 17: All	640.00	✓ LH5040 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
47	T34S, R16W Section 20: All	378.32	✓ LH5041 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
48	T34S, R16W Section 21: All	378.40	✓ LH5042 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
49	T34S, R16W Section 22: All	378.20	✓ LH5043 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
50	T34S, R16W Section 23: All	377.72	✓ LH5044 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
51	T34S, R16W Section 24: All	377.88	✓ LH5045 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
52	T34S, R16W Section 6: All	644.01	LH5256 1/1/08	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
53	T32S, R16W Section 5: All	641.06	LH5218 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
54	T32S, R16W Section 7: SE/4	160.00	LH5220 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
55	T32S, R16W Section 8: E/2	320.00	LH5221 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
56	T32S, R16W Section 9: All	640.00	LH5222 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
57	T32S, R16W Section 14: All	640.00	LH5224 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
58	T32S, R16W Section 15: All	640.00	LH5225 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
59	T32S, R16W Section 16: All	640.00	LH5226 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
60	T32S, R16W Section 17: All	640.00	LH5227 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
61	T32S, R16W Section 18: NE/4, N/2 SE/4, SE/4SE/4, SW/4SW/4	319.72	LH5228 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
62	T32S, R16W Section 19: NE/4NE/4, NW/4NW/4, SE/4NW/4, E/2SW/4	199.74	LH5229 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
63	T32S, R16W Section 20: NE/4, E/2SE/4, N/2NW/4, SW/4NW/4	360.00	LH5230 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
64	T32S, R16W Section 22: S/2, NE/4, S/2NW/4, NW/4NW/4	600.00	LH5231 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
65	T32S, R16W Section 29: S/2, E/2NE/4	400.00	LH5232 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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66	T32S, R16W Section 30: S/2, E/2NW/4	399.64	LH5233 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
67	T33S, R15W Section 31: W/2, NE/4, NE/4SE/4	517.76	LH5239 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
68	T33S, R16W Section 3: All	641.56	LH5240-2 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
69	T33S, R16W Section 6: All	642.09	LH5241 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
70	T33S, R16W Section 7: All	639.32	LH5242 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
71	T33S, R16W Section 18: All	639.32	LH5243-1 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
72	T33S, R16W Section 19: All	639.42	LH5244-1 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
73	T33S, R16W Section 25: All	640.00	LH5245 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
74	T33S, R16W Section 26: All	640.00	LH5246 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
75	T33S, R16W Section 30: All	639.22	LH5247-1 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
76	T33S, R16W Section 31: All	639.20	LH5248-1 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
77	T33S, R16W Section 35: All	640.00	LH5249 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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78	T33S, R16W Section 36: All	640.00	LH5250 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
79	T34S, R15W Section 4: All T34S, R15W Section 5: E/2, NE/4NW/4, E/2SW/4, SW/4SW/4	640.00	LH5251 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
80	T34S, R15W Section 8: W/2SE/4, NE/4SE/4, E/2SW/4, SW/4SW/4	480.00	LH5252 6/1/09	2.4%	Dan A. Hughes & Fort Worth Operating	0	100%	
81	T34S, R15W Section 9: S/2SE/4, SW/4NE/4, SE/4NW/4, NW/4SW/4	240.00	LH5253 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
82	T34S, R15W Section 9: S/2SE/4, SW/4NE/4, SE/4NW/4, NW/4SW/4	200.00	LH5254 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
83	T34S, R16W Section 3: All	648.98	LH5255 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
84	T34S, R16W Section 7: All	645.16	LH5257 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
85	T34S, R16W Section 11: All	640.00	LH5258 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
86	T34S, R16W Section 18: All	646.12	LH5260 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
87	T34S, R16W Section 19: All	382.59	LH5261 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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88	T32S, R16W Section 31: All	640.26	LH5234 6/1/09	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
89	T32S, R17W Section 25: S/2	314.46	LH5337 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
90	T32S, R17W Section 26: All	640.00	LH5338 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
91	T32S, R17W Section 35: All	610.69	LH5339 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
92	T32S, R17W Section 36: All	600.28	LH5340 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
93	T33S, R17W Section 1: All	641.96	LH5342 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
94	T33S, R17W Section 2: All	639.08	LH5343 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
95	T33S, R17W Section 11: All	640.00	LH5344 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
96	T33S, R17W Section 12: All	640.00	LH5345 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
97	T33S, R17W Section 13: All	640.00	LH5346 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
98	T33S, R17W Section 14: All	640.00	LH5347 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
99	T33S, R17W Section 24: All	640.00	LH5348 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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100	T33S, R17W Section 25: All	640.00	LH5349 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
101	T33S, R17W Section 26: All	640.00	LH5350 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
102	T33S, R17W Section 35: All	640.00	LH5351 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
103	T33S, R17W Section 36: All	640.00	LH5352 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
104	Section 6: S/2, NW/4, W/2NE/4, SE/4NE/4	600.60	LH5357 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
105	T34S, R15W Section 7: S/2, NW/4, E/2NE/4, SW/4NE/4	601.20	LH5358 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
106	T34S, R17W Section 1: Lots 1,2,3,4, S/2N/2, S/2	640.90	LH5359 9/01/10	12.5%	Yates Petroleum Corp.	0	100%	
107	Section 2: Lots 1,2,3,4, S/2N/2, S/2	641.46	LH5360 9/01/10	12.5%	Yates Petroleum Corp.	0	100%	
108	T34S, R17W Section 11: All	640.00	LH5361 9/01/10	12.5%	Yates Petroleum Corp.	0	100%	
109	T34S, R17W Section 12: All	640.00	LH5362 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
110	T34S, R17W Section 13: All	640.00	LH5363 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
111	T34S, R17W Section 14: All	640.00	LH5364 9/01/10	12.5%	Yates Petroleum Corp.	0	100%	

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112	T34S, R17W Section 24: All	378.80	LH5365 9/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
113	T32S, R16W Section 23: All	640.00	LH5410-1 11/1/10	12.5%	Harvey E. Yates Co.	0	100%	
114	T32S, R16W Section 24: W/2, W/2E/2	480.00	LH5411-1 11/1/10	12.5%	Harvey E. Yates Co.	0	100%	
115	T32S, R16W Section 25: All	640.00	LH5412 11/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
116	T32S, R16W Section 26: All	640.00	LH5413 11/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
117	T32S, R16W Section 35: All	640.00	LH5414-1 11/1/10	12.5%	Harvey E. Yates Co.	0	100%	
118	T33S, R16W Section 2: All	642.48	LH5415 11/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
119	T33S, R16W Section 10: All	640.00	LH5416-1 11/1/10	12.5%	Harvey E. Yates Co.	0	100%	
120	T33S, R16W Section 11: All	640.00	LH5417 11/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
121	T33S, R16W Section 14: All	640.00	LH5418 11/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
122	T33S, R16W Section 15: All	640.00	LH5419 11/1/10	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
123	T32S, R17W Section 21: All	640.00	LH6646 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
124	T32S, R17W Section 28: All	640.00	LH6647 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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125	T32S, R17W Section 33: All	622.94	LH6648 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
126	T33S, R17W Section 3: Lots 1,3,4, SE/4NE/4, E/2SW/4, SE/4	397.95	LH6649 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
127	T33S, R17W Section 4: Lots 1,2,3,4, S/2N/2, SW/4, W/2SE/4	562.56	LH6650 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
128	T33S, R17W Section 9: All	640.00	LH6651 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
129	T33S, R17W Section 10: All	640.00	LH6652 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
130	T33S, R17W Section 15: All	640.00	LH6653 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
131	T33S, R17W Section 16: All	640.00	LH6654 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
132	T33S, R17W Section 21: E/2, SW/4	480.00	LH6655 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
133	T33S, R17W Section 22: E/2, NW/4, N/2SW/4, SW/4SW/4	600.00	LH6656 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
134	T33S, R17 Section 23: All	640.00	LH6657 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
135	T33S, R17W Section 27: All	640.00	LH6658 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	

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136	T33S, R17W Section 28: All	640.00	LH6659 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
137	T33S, R17W Section 33: N/2, NW/4SW/4, NE/4SE/4, S/2SE/4	480.00	LH6660 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
138	T33S, R17W Section 33: NE/4SW/4, S/2SW/4, NW/4SE/4	160.00	LH6661 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
139	T33S, R17W Section 34: All	640.00	LH6662 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
140	T34S, R17W Section 3: Lots 1,2,3,4, S/2N/2, S/2	639.34	LH6663 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
141	T34S, R17W Section 4: Lots 1,2,3,4, S/2N/2, S/2	637.10	LH6664 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
142	T34S, R17W Section 10: All	640.00	LH6665 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
143	T34S, R17W Section 15: All	640.00	LH6666 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
144	T34S, R17W Section 16: All	640.00	LH6667 04/01/17	12.5%	Dan A. Hughes & Fort Worth Operating	0	100%	
	Total State Acres:	78942.60						

*1 See attached "Schedule B-1"

*2 The Working Interest is held 80% by Dan A. Hughes and 20% by Fort Worth Operating

<u>Tract Number</u>	<u>Description of Lands</u>	<u>Acres</u>	<u>Serial Number and Expiration Date</u>	<u>Basic Royalty and Percentage</u>	<u>Lessee of Record</u>	<u>Overriding Royalty and Percentage *1</u>	<u>Working Interest and Percentage *2</u>	<u>Beneficiary</u>
145	T32S, R16W Section 19: NE/4 NW/4, NW/4 NE/4, SW/4 NW/4, S/2 NE/4, NW/4 SW/4, SW/4 SE/4	440.00	10/1/2012	20.0%	Dan A. Hughes & Fort Worth Operating	0	100%	
	T32S, R16W Section 20: SE/4 NW/4, SW/4, W/2 SE/4	280.00						
	T32S, R16W Section 22: NE/4 NW/4	40.00						
	T32S, R16W Section 29: NW/4, W/2 NE/4	240.00						
	T32S, R16W Section 30: NE/4, W/2 NW/4	240.00						
	T32S, R17W Section 24: N/2 N/2, S/2 S/2	320.00						
	T32S, R17W Section 25: N/2	320.00						
	T32S, R17W Section 27: S/2, S/2 N/2	480.00						
	T32S, R17W Section 34: All	640.00						
	T33S, R16W Section 27: NW/4	160.00						
	T33S, R16W Section 28: NE/4	160.00						
	T33S, R17W Section 3: S/2 NW/4, W/2 NE/4, W/2 SW/4	240.00						

*1 See attached "Schedule B-1"

*2 The Working Interest is held 80% by Dan A. Hughes and 20% by Fort Worth Operating



PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

November 28, 2007

Stonebridge Energy, LLC
14275 Midway Road, Suite 220
Addison, TX 75001

Attn: Mr. Larry Hunnicutt

Re: Final Approval
Hueco South Unit
Hidalgo County, New Mexico

Dear Mr. Hunnicutt:

This office is in receipt of your letter of November 15, 2007, wherein on behalf of Dan A. Hughes Company, L.P. you have requested final approval to the Hueco South Unit Agreement, Hidalgo County, New Mexico.

Please be advised that the Commissioner of Public Lands has this date granted final approval to the Hueco South Unit Agreement, Hidalgo County, New Mexico. Our approval is subject to like approval by the New Mexico Oil Conservation Division.

It is our understanding that Tract Nos. 106, 107, 108, 111, 113, 114, 117, and 119 are not committed to the unit agreement at this time.

Enclosed are (5) Certificates of Approval.

Your \$4,320.00 filing fee has been received.

Please notify this office when the initial well has been spudded and also submit continuous daily drilling reports until the initial well is completed.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744
PL/JB/pm

pc: Reader File,
OCD-Santa Fe, Attn: Mr. Ed Martin
TRD-Attn: Mr. Valdean Severson
RMD-Attn: Mr. Kurt McFall

-State Land Office Beneficiaries -

Carne Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM Saline Lands • Water Reservoirs • Western New Mexico University

DAN A. HUGHES COMPANY, L.P.
Petroleum Exploration And Production

November 6, 2007

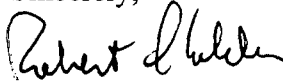
Larry Hunnicutt
14275 Midway Rd., suite 220
Addison, Texas 75001

Re: 11th year Rentals – Hidalgo Co., NM

Dear Larry,

As per our conversation today, enclosed please find our check in the amount of \$12,601.82 for the 11th year Rentals covering 52 State of NM Leases at secondary term rate of \$0.50/acre made to the Commissioner of Public Lands. We look in anticipation to our Unit approval by the OCD and final approval by the Commissioner of Public lands. Thank you for all of the time and effort you have devoted to this project. Should you have any questions, or need anything further please do not hesitate to call me.

Sincerely,



Robert Holder
Landman

DAN A. HUGHES COMPANY SOUTH TEXAS OPERATING ACCOUNT — BEEVILLE, TEXAS

INVOICE DATE	INVOICE NO.	PROPERTY NO.	DESCRIPTION	AMOUNT
1-6-07		0043	State of New Mexico Pedregosa Basin Oil and Gas Leases	\$12,601.82*****

DAN A. HUGHES COMPANY LP

POST OFFICE BOX 669
BEEVILLE, TEXAS 78104

The First National Bank of Beeville
BEEVILLE, TEXAS

No. 002267

PAY TO THE ORDER OF:

Commissioner of Public Lands
P. O. Box 1148
Santa Fe, NM 87504-1148

DATE			CHECK NUMBER
MO	DAY	YR	
11	6	07	002267

AMOUNT
\$12,601.82***

VOID AFTER 120 DAYS

DAN A. HUGHES COMPANY LP
SOUTH TEXAS OPERATING ACCOUNT

JM SCOTTEN

⑈002267⑈ ⑆114902777⑆

⑈898⑈076⑈4

[Signature]

From: Origin ID: CRPA (361)358-3752
Kathy Young
DANA. HUGHES COMPANY
208 E. HOUSTON

BEEVILLE, TX 78102



CL8090007/21/21

SHIP TO: (972)687-9060 **BILL SENDER**
Larry Hunnicutt
Stonebridge Energy LLC
14275 MIDWAY RD STE 220

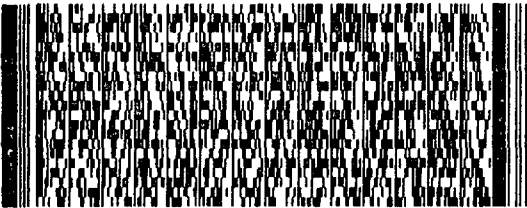
ADDISON, TX 750013652

Ship Date: 07NOV07
ActWgt: 1 LB
System#: 2387028/INET7091
Account#: S *****

Delivery Address Bar Code



Ref #
Invoice #
PO #
Dept #

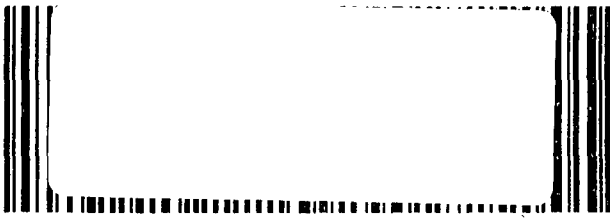


TRK# 7924 5085 0105
0201

THU - 08NOV **A2**
STANDARD OVERNIGHT

AD-ADSA

DFW
TX-US
75001



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- 1. Use the 'Print' feature from your browser to send this page to your laser or inkjet printer.
- 2. Fold the printed page along the horizontal line.
- 3. Place label in shipping pouch and affix it to your shipment so that the barcode portion of the label can be read and scanned.

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INVOICE DATE	INVOICE NO.	PRC Y	DESCRIPTION	AMOUNT
11-7-07		0043	Pedregosa Basin Project Hueco South Unit - Application to State Commissioner of Public Lands as Unit Filing fee \$30/lease 144 leases	\$4,320.00

DAN A. HUGHES COMPANY LP
POST OFFICE BOX 669
BEEVILLE, TEXAS 78104

The First National Bank of Beeville
BEEVILLE, TEXAS

No. 002268

PAY TO THE ORDER OF:

Commissioner of Public Lands
State of New Mexico

DATE			CHECK NUMBER
MO	DAY	YR.	
11	7	07	002268

AMOUNT
\$4,320.00*****

VOID AFTER 120 DAYS

DAN A. HUGHES COMPANY LP
SOUTH TEXAS OPERATING ACCOUNT

JM SCOTTEN

⑈002268⑈ ⑆11490277⑆

⑈898⑈076⑈4

21

CHECK REQUEST

OPER _____ DAHC _____

Invoice Date	Invoice No.	Property No.	Description	Amount
		0043	Pedregosa Basin Project Hueco South Unit - Application to State Commissioner of Public Lands as Unit Filing 50 fee \$ 30/lease 144 leases \$4,320.00	\$4,320.00
Pay to the order of: Commissioner of Public Lands State of NM Date 11-7-07 Amount \$4,320.00				

403-237-1347

Attn: Mr. Alex Wilson

HARVEY

Harvey Seismic Services, Inc.
1625 Broadway, Suite 805
Denver, Colorado 80202
(303) 572-1423

DATE: June 16, 2004
FILE NO. 170

LESSOR:
Harvey Seismic Services, Inc.
#4 Village Ct.
Littleton, CO 80123

LESSEE: Petroleum Investors, L. C.
Attn: E. C. Woodruff
Six Desta Dr., Ste. 3150
Midland, TX 79705

Gentlemen:

As negotiated through WM. HARVEY SEISMIC SERVICES, INC.

Harvey Seismic

(hereinafter referred to as LESSOR)

grants the right to use geophysical data to

Petroleum Investors, L. C. (hereinafter referred to as LESSEE)

LESSOR agrees to release to LESSEE the seismic information obtained from 200.93 miles of seismic data selected by LESSEE and shown on the map in red hereby attached as EXHIBIT A.

Upon execution of this agreement LESSOR agrees to furnish LESSEE reproducible prints of the seismic data designated. LESSEE shall have access to copies of available raw data, at cost, with respect to the said miles, such as magnetic tapes, where available, survey notes, observer's sheets, and drillers logs, for a period of one (1) year from the date of this agreement. We understand that LESSEE agrees that the data obtained will not be traded, sold or otherwise divulged by it to third parties, except that data furnished may be shown in conjunction with joint operations or exploration contracts, but only for the purpose of analysis and interpretation, provided that such third parties shall agree not to further disclose such information to other parties; provided further that copies of any such seismic data shall not be furnished to such third parties by LESSEE.

LESSOR represents that it has the right to lease the data which is the subject of this agreement and that the data were gathered by competent and experienced crews using instrumentation and field techniques available at the time of data acquisition.

LESSOR makes no representation relative to the accuracy or completeness of the data.

WM. HARVEY SEISMIC SERVICES, INC., is the commissioned agent for the lease of these data. ☒

This Agreement and the obligations of the parties hereto shall terminate thirty (30) years from the date hereof, except for any Data not then in the public domain. Upon termination hereof or in the case of a sublease terminating sooner, lessee and its sub-lessee shall return all physical evidence of the data. ☒

termination hereof or in the case of a sublease termination sooner, lessee and its sub-lessee shall return all physical evidence of the Data at HSS's expense to HSS. Lessee agrees to hold harmless and indemnify HSS from and against any loss sustained by reasons of Lessee's breach of its obligation. 2

DESCRIPTION OF SEISMIC DATA

Southwestern New Mexico AREA

TOWNSHIP _____, RANGE _____
COUNTY Dona Ana, Hidalgo, STATE New Mexico
~~Sierra~~

LINE NUMBERS:	SHOTPOINTS:	MILES:	PRICE/MILE:	COST:
See Attached		200.935	\$100.00	\$20,000.00

TERMS: LESSEE SHALL PAY WM. HARVEY SEISMIC SERVICES, INC., the sum of \$20,000.00 which will be invoiced to LESSEE immediately following the receipt of the described material.

ACCEPTED AND AGREED TO THIS

16th DAY OF July 19 2004

LESSOR Harvey Seismic Services, Inc.

BY: Dorothy Harvey
Harvey Seismic Services

ACCEPTED AND AGREED TO THIS

16th DAY OF June 16 2004

LESSEE Petroleum Investors, L. C.

BY: John Stephen Guyton aka "Steve"
John Stephen Guyton/aka "Steve"
Exec VP; Petroleum Investors, L.C.

ACCEPTED AND AGREED TO THIS

DAY OF 19

WM. HARVEY SEISMIC SERVICES, INC.

BY: _____

RECEIVED TIME NOV. 2. 12:05PM

Robert Holder

From: Lonemtncts@aol.com
Sent: Monday, November 05, 2007 10:05 AM
To: rholder@dahughes.net
Cc: forsdick@dawson3d.com
Subject: Hueco South 3-D Seismic

Robert,
Sorry I didn't get back to you by 3:00 on Friday. I was waiting for a call back from Tom Holcomb the archaeologist with the Las Cruces BLM, I wanted to find out his schedule for the upcoming holiday and make sure he would be available to sign off on the preliminary report. He told me he has decided that he will need a full final report and will no longer accept a preliminary report as he and I had discussed months ago. He said he needs to consult with the SHPO and cannot give clearance until he does. I reminded him of our earlier agreement and he said that because of the current climate between the BLM and the SHPO office that he has to follow protocol which entails a 30 day review and consultation with the state. He also told me that he will be off for Thanksgiving and the following week he will be in Santa Fe for the week for a state-wide BLM staff meeting.

Given this turn of events, at this late date, we will not be able to meet the Dec. 1 deadline we discussed for clearance on the archaeology. With the number of archaeological sites we have encountered thus far it will take us at least 30 days to prepare a final report (based on BLM requirements) after we have finished the fieldwork.

Regards,

Cathy A. Travis
President
Lone Mountain Archaeological Services, Inc.
2625 Pennsylvania NE, Suite 2000
Albuquerque, NM 87110
(505) 881-0011
(505) 881-0020 fax
lonemtncts@aol.com

State of NM, US

1- 800 825 6630

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BLM - Las Cruces, NM
505-525 4300

SHPO — Katherine Slick - State Historical Preservation Office

827 6320

476-1320

826-6364

11/5/2007

State Archeologist - Glenna Dean
505 827 3589

State Archeological Permits - Michelle Ensey
827-4064

Pedregosa Basin Project
Hueco South Unit 82,622.60 acres
Hidalgo County, New Mexico

State of New Mexico mineral acres – 78,942.60 acres
Pacific Western Land Co. Fee acres - 3,680.00 acres
82,622.60 acres

Timeline:

Dan A. Hughes Company, L.P. Hueco South Unit 26 State #1 well and Hueco South Unit

- 1.) Unit under advisement at Oil Conservation Division
- 2.) Final Approval from State Land Office
- 3.) Obtain Permit to Drill DAHC, L.P. Hueco South 26 State #1
 - A.) Apply for Permit to Drill Water Well
- 4.) Title Opinion for Sec 26, T32S R17W – in process
- 5.) Pay delay rentals on 52 Leases totaling \$12,601.81 prior to expiration
- 6.) Make application for approval in advance to NM State Land Office
- 7.) Notify SLO of actual commencement of operations
- 8.) Archeological Study for BLM and State Historical Preservation Officer -

Approval of:

- a. Seismic Shoot
 - b. Road to wellsite and wellpad from SHPO
- 9.) Must file report every 30 days
 - 10.) CANNOT let 20 consecutive days lapse between operations
 - 11.) Surface Use Compensation Agreement (Exhibit D) for Well
 - 12.) Must be drilling by December 31, 2007
 - 13.) Continuous Drilling is 6 months from completion of one well until proceeding with next well until discovery of production capable of producing in paying quantities (quantities sufficient to repay costs of drilling and producing operations with a reasonable profit) to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

	A	B	C	D	E	F	G	H	I	J
	<u>Lessor</u>	<u>Lease #</u>	<u>Lease Date</u>	<u>Term</u>	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Township</u>	<u>Range</u>	<u>Section</u>	<u>Description</u>
1	State of NM	LH4950	1.1.98	10 yr.	640.00	640.00	32	16	21	All
2	State of NM	LH4951	1.1.98	10 yr.	640.00	640.00	32	16	27	All
3	State of NM	LH4952	1.1.98	10 yr.	640.00	640.00	32	16	28	All
4	State of NM	LH4953	1.1.98	10 yr.	640.00	640.00	32	16	32	All
5	State of NM	LH4954	1.1.98	10 yr.	640.00	640.00	32	16	33	All
6	State of NM	LH4955	1.1.98	10 yr.	640.00	640.00	32	16	34	All
7	State of NM	LH4981	1.1.98	10 yr.	641.3938	641.39	33	16	4	All
8	State of NM	LH4982	1.1.98	10 yr.	641.54	641.54	33	16	5	All
9	State of NM	LH4983	1.1.98	10 yr.	640.00	640.00	33	16	8	All
10	State of NM	LH4984	1.1.98	10 yr.	640.00	640.00	33	16	9	All
11	State of NM	LH4985	1.1.98	10 yr.	640.00	640.00	33	16	16	All
12	State of NM	LH4986	1.1.98	10 yr.	640.00	640.00	33	16	17	All
13	State of NM	LH4987	1.1.98	10 yr.	640.00	640.00	33	16	20	All
14	State of NM	LH4988	1.1.98	10 yr.	640.00	640.00	33	16	21	All
15	State of NM	LH4989	1.1.98	10 yr.	640.00	640.00	33	16	22	All
16	State of NM	LH4990	1.1.98	10 yr.	640.00	640.00	33	16	23	All
17	State of NM	LH4991	1.1.98	10 yr.	480.00	480.00	33	16	27	S/2, NE/4
18	State of NM	LH4992	1.1.98	10 yr.	480.00	480.00	33	16	28	S/2, NW/4
19	State of NM	LH4993	1.1.98	10 yr.	640.00	640.00	33	16	29	All
20	State of NM	LH4994	1.1.98	10 yr.	640.00	640.00	33	16	32	All
21	State of NM	LH4995	1.1.98	10 yr.	600.00	600.00	33	16	33	E/2, SW/4, S/2NW/4, NW/4NW/4
22	State of NM	LH5017	1.1.98	10 yr.	640.00	640.00	33	16	34	All
23	State of NM	LH5018	1.1.98	10 yr.	80.00	80.00	34	15	10	E/2
24	State of NM	LH5019	1.1.98	10 yr.	320.00	320.00	34	15	11	S/2SW/4
25	State of NM	LH5020	1.1.98	10 yr.	40.00	40.00	34	15	12	W/2
26	State of NM	LH5021	1.1.98	10 yr.	520.00	520.00	34	15	13	SW/4SE/4, SE/4SW/4
27	State of NM	LH5022	1.1.98	10 yr.	200.00	200.00	34	15	14	S/2, NE/4, NE/4NW/4
28	State of NM	LH5023	1.1.98	10 yr.	320.00	320.00	34	15	15	NE/4NW/4, NW/4ME/4, SE/4ME/4, E/2SE/4
29	State of NM	LH5024	1.1.98	10 yr.	640.00	640.00	34	15	16	NW/4, N/2SW/4, NW/4SE/4, SE/4SE/4
30	State of NM	LH5025	1.1.98	10 yr.	600.00	600.00	34	15	17	All
31	State of NM	LH5026	1.1.98	10 yr.	401.00	401.00	34	15	18	S/2, NW/4, S/2NE/4, NW/4NE/4
32	State of NM	LH5027	1.1.98	10 yr.	100.63	100.63	34	15	19	NW/4, N/2SW/4, SE/4SW/4, N/2NE/4, SE/4SE/4
33	State of NM	LH5028	1.1.98	10 yr.	100.63	100.63	34	15	19	NE/4W/2, SW/4E/2

	A	B	C	D	E	F	G	H	I	J
	<u>Lessor</u>	<u>Lease #</u>	<u>Lease Date</u>	<u>Term</u>	<u>Gross Acres</u>	<u>Net Acres</u>	<u>Township</u>	<u>Range</u>	<u>Section</u>	<u>Description</u>
36	State of NM	LH5029	1.1.98	10 yr.	80.00	80.00	34	15	20	N/2E/2
37	State of NM	LH5030	1.1.98	10 yr.	40.00	40.00	34	15	21	NW/4W/2
38	State of NM	LH5031	1.1.98	10 yr.	80.00	80.00	34	15	23	N/2E/2
39	State of NM	LH5032	1.1.98	10 yr.	646.41	646.41	34	16	4	All
40	State of NM	LH5033	1.1.98	10 yr.	644.12	644.12	34	16	5	All
41	State of NM	LH5034	1.1.98	10 yr.	640.00	640.00	34	16	8	All
42	State of NM	LH5035	1.1.98	10 yr.	640.00	640.00	34	16	9	All
43	State of NM	LH5036	1.1.98	10 yr.	640.00	640.00	34	16	10	All
44	State of NM	LH5037	1.1.98	10 yr.	640.00	640.00	34	16	14	All
45	State of NM	LH5038	1.1.98	10 yr.	640.00	640.00	34	16	15	All
46	State of NM	LH5039	1.1.98	10 yr.	640.00	640.00	34	16	16	All
47	State of NM	LH5040	1.1.98	10 yr.	640.00	640.00	34	16	17	All
48	State of NM	LH5041	1.1.98	10 yr.	376.32	376.32	34	16	20	All
49	State of NM	LH5042	1.1.98	10 yr.	378.40	378.40	34	16	21	All
50	State of NM	LH5043	1.1.98	10 yr.	378.20	378.20	34	16	22	All
51	State of NM	LH5044	1.1.98	10 yr.	377.72	377.72	34	16	23	All
52	State of NM	LH5045	1.1.98	10 yr.	377.88	377.88	34	16	24	All
53					25203.61	25203.61				
54										

644.01

Exhibit "C"**UNIT PARTICIPATION SCHEDULE**
HUECO SOUTH UNIT (82,622.60 acres)

<u>PARTICIPANTS</u>	<u>NET ACRES</u>	<u>UNIT PARTICIPATION %</u>
Dan A. Hughes Company, L.P.	62,128.19	75.195120
Fort Worth Operating Company	15,532.05	18.798780
Yates Petroleum Corporation	2,562.36	3.101300
Harvey E. Yates Company	2,400.00	2.904800
	<hr/>	<hr/>
	82,622.60	100.00000

Schedule B - 1 Overriding Royalty Ownership
 Attached to Exhibit B
 Hueco South Unit
 Hidalgo County, NM

Monroe Mineral Corporation	1.21	0.79	1.2	1.21
Partnership Equity, Ltd.	0.1			0.1
Walter L. Farrington, III	0.5	0.5	0.5	0.05
Bryan J. Tomasek	0.25	0.21	0.25	0.25
Louis J. Buffington	0.2		0.2	0.2
Stonebridge Energy, LLC	1	1	1	1
Andrew D. Bell	0.25	0.25	0.25	0.25
Mike H. Roberts	0.25			0.25
Guyton Energy, L.P.	0.5	0.25	0.25	0.5
George M. Young, Jr.	1	1	1	1
Greenwood Estate	0.25			0.25
Phillips Land Associates, Inc.				
Inland Scout, LLC		0.99	1	1
Hinkle		4		
PetroQuest, Inc				1
TOTAL	8	6.5	5.65	9

STONEBRIDGE ENERGY, LLC
14275 MIDWAY ROAD
SUITE 220
ADDISON, TX 75001
972-687-9060

October 10, 2007

Mr. Randy Patterson, Vice President
Yates Petroleum Corporation
200 West Fourth Street
Artesia, NM 88200

Re: Hueco South Unit
Hidalgo County, NM

Dear Mr. Patterson:

Stonebridge Energy, LLC is working jointly with Dan A. Hughes Company, L.P. ("DAHC") to form the Hueco South Unit in Hidalgo County, NM for the drilling of a test well in December 2007. DAHC currently holds record title to 77,660.24 state and fee acres within the proposed unit boundary and through its predecessor applied with the State Land Office on March 7, 2005 for preliminary approval of the unit, then comprising 64,000.35 acres. Preliminary approval was granted April 5, 2005.

Since gaining approval from the Commissioner, additional acreage has been acquired and a revised application was submitted on October 9, 2007 for expansion of the unit to 82,622.60 acres. In the unit agreement, DAHC is named as operator.

A review of the state records indicates YPC holds title to four state leases within the proposed expanded unit boundary. They are LH-5359, LH-5360, LH-5361, and LH-5364 totaling 2,562.36 net acres. On behalf of DAHC, we invite you to contribute your leases to the proposed unit and participate in the initial unit well. Enclosed for your consideration is SLO State/Fee Exploratory Unit Agreement with Exhibits A, B, and C.

You will note the agreement unitizes all formations and requires the initial test well be drilled to test the Abo formation at a depth not to exceed 4,500 feet. However, the well will be drilled to 6,600 feet to test the Percha Shale at a location in the SW/4 of Section 26, Township-32-South, Range-17-West and will spud as soon as possible after final approval of the unit by OCD and SLO. Enclosed is the AFE for the Dan A. Hughes Company, L.P., Hueco South Unit #26-State#1.

Thank you for considering joining the Hueco South Unit and we look forward to visiting with you to further discuss this proposal.

Regards,



Larry Hunnicutt,
Managing Member

Enclosures:

Cc: Robert Holder, Dan A. Hughes Company, L.P.

STONEBRIDGE ENERGY, LLC
14275 MIDWAY ROAD
SUITE 220
ADDISON, TX 75001
972-687-9060

October 10, 2007

Ms. Melissa Randall
Harvey E. Yates Company
P.O. Box 1933
Roswell, NM 88202

Re: Hueco South Unit
Hidalgo County, NM

Dear Ms Randall:

Stonebridge Energy, LLC is working jointly with Dan A. Hughes Company, L.P. ("DAHC") to form the Hueco South Unit in Hidalgo County, NM for the drilling of a test well in December 2007. DAHC currently holds record title to 77,660.24 state and fee acres within the proposed unit boundary and through its predecessor applied with the State Land Office on March 7, 2005 for preliminary approval of the unit, then comprising 64,000.35 acres. Preliminary approval was granted April 5, 2005.

Since gaining approval from the Commissioner, additional acreage has been acquired and a revised application was submitted on October 9, 2007 for expansion of the unit to 82,622.60 acres. In the unit agreement, DAHC is named as operator.

A review of the state records indicates HEYCO holds title to four state leases within the proposed expanded unit boundary. They are LH-5410, LH-5411, LH-5414, and LH-5416 totaling 2,400.00 net acres. On behalf of DAHC, we invite you to contribute your leases to the proposed unit and participate in the initial unit well. Enclosed for your consideration is SLO State/Fee Exploratory Unit Agreement with Exhibits A, B, and C.

You will note the agreement unitizes all formations and requires the initial test well be drilled to test the Abo formation at a depth not to exceed 4,500 feet. However, the well will be drilled to 6,600 feet to test the Percha Shale at a location in the SW/4 of Section 26, Township-32-South, Range-17-West and will spud as soon as possible after final approval of the unit by OCD and SLO. Enclosed is the AFE for the Dan A. Hughes, L.P., Hueco South Unit #26 -State #1.

Thank you for considering joining the Hueco South Unit and we look forward to visiting with you to further discuss this proposal.

Regards,



Larry Hunnicutt,
Managing Member

Enclosures:

Cc: Robert Holder, Dan A. Hughes Company, L.P.



HUGHES EXHIBIT NO. 6

PATRICK H. LYONS
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

October 15, 2007

Stonebridge Energy, LLC
14275 Midway Road, Suite 220
Addison, TX 75001

Attn: Mr. Larry Hunnicutt

Re: Amended Preliminary Approval
Second Expansion of Proposed Hueco South Unit
Additional 18,622.25 Acres
Hidalgo County, New Mexico

Dear Mr. Hunnicutt:

On May 27, 2003 this office granted preliminary approval to the proposed Hueco South Unit area in Hidalgo County, New Mexico containing 56,096.94 acres. Your letter of March 7, 2005 requested our approval to expand the proposed unit boundaries to include an additional 7,903.41 acres for a total of 64,000.35 acres. Your second expansion letter of October 1, 2007 advises that Dan A. Hughes Company, L.P. will be operating this unit and requests our approval to add an additional 18,622.25 acres that were previously withdrawn and have subsequently been leased.

Please be advised that the Commissioner of Public Lands has this date granted you preliminary approval as to form and content for the expanded Hueco South Unit area containing 82,622.60 acres in Hidalgo County, New Mexico..

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 1.045, applications for approval shall contain a statement of facts showing:
 - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
 - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
 - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
 - d. That such unit agreement is in other respects for the best interest of the trust.

-State Land Office Beneficiaries -

Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM Saline Lands • Water Reservoirs • Western New Mexico University

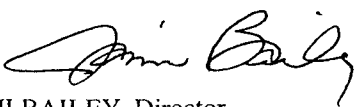
Stonebridge Energy, LLC
October 15, 2007
Page 2

3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.
4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement.
7. Copies of all the well records for the initial unit well. We need a definite initial well location prior to final approval.
8. The filing fee for a unit agreement is \$30 for every section or partial section thereof. Please submit a filing fee in the amount of \$4,320.00.
9. A statement that all owners within the unit boundaries have been invited to join the unit.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS
COMMISSIONER OF PUBLIC LANDS

BY: 
JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

PL/JB/pm
cc: OCD-Santa Fe, Attention: Mr. David Catanach

Dan A. Hughes Company
P. O. Drawer 669
Beeville, Texas

HUGHES EXHIBIT NO. 10

AUTHORITY FOR EXPENDITURE # 0284

DATE 10/2/07

WELL: Hueco South Unit 26 State #1
COUNTY: Hidalgo
PROSPECT: Pedregosa Basin (Hueco South Unit)
PROPOSED DEPTH: 6600'
LOCATION: Township 32S, Range 17W, Section 26, SW/4 SW4, 660' FSL x 660' FWL

	Acct. Codes	Drilling Costs	Completion Costs	Total Estimated Costs
<u>INTANGIBLE COSTS (G/L # 6010)</u>				
LOCATION COSTS:				
Survey	105	5,000		5,000
Location & Road (w/ damages)	121	25,000	3,000	28,000
Location Cleanup	189		5,000	5,000
DRILLING COSTS:				
Drilling Overhead	101	2,000	1,000	3,000
Permit Fees	109	1,000		1,000
Rig Mobilization	119	70,000		70,000
Drilling				
10 Days @ \$15,000.00 / Day	129	150,000	16,000	166,000
Fuel	248	20,000		20,000
Water	141	10,000	3,000	13,000
Drilling & Completion Fluids	133	0	3,000	3,000
Drill Bits	137	0		
Cementing Services	169	0	30,000	30,000
Casing Crews/Labor	213	0	8,000	8,000
Surface Equip. Rental	210	0	5,000	5,000
Drillstring & Downhole Rental, Motors	211	0		
Directional Drilling Services	139			
Hauling & Freight	206	20,000	16,000	36,000
Roustabout & Misc. Services	218	6,000	5,000	11,000
Mud & Cuttings Disposal	193	4,000	3,000	7,000
Communication Expenses	230			
Gate Guard	215			
Tubular / BOP Testing	541			
Plugging Costs (if necessary)	175	25,000		25,000
EVALUATION COSTS:				
Electric Logging	149	33,000		33,000
Mud Log Service	145	12,000		12,000
Core & Paleo Analysis	157			
Drill Stem Testing	161			
COMPLETION COSTS:				
Completion Unit	181		18,000	18,000
Cased Hole Wireline Services	173		25,000	25,000
Well Testing	266			
Well Stimulation Treatments	177		5,000	5,000
MISC. COSTS:				
Supervision	551	0	8,000	8,000
Drilling Liability Ins.	573	0		
Loss Of Well Control Ins.	576	0		
Contingencies(5%)	280	0		
Total Intangible Costs		\$383,000	\$154,000	\$537,000

Dan A. Hughes Company
P. O. Drawer 669
Beeville, Texas

AFE # 0284
Well: Hueco South Unit 26 State #1

<u>TANGIBLE COSTS (G/L #1150)</u>	<u>Acct Codes</u>	<u>Drilling Costs</u>	<u>Completion Costs</u>	<u>Total Estimated Costs</u>
WELLHEAD EQUIPMENT:				
Bradenhead	435	3,000		3,000
Casing Spool	435			
Tubing Spool	430		10,000	10,000
Christmas Tree	430		20,000	20,000
COMPLETION EQUIPMENT:				
Packers	425		7,000	7,000
Liner Hangers	427			
Downhole Pump	482			
TUBULARS:				
Conductor	402	8,000		8,000
Surface 500' of 9-5/8", 36#, J-55 LT&C	404	45,000		45,000
Intermediate	406			
Liner	406			
Production 6200' of 5-1/2", 17# J55 LT&C	410		54,000	54,000
Tubing 6100' of 2-3/8", 4 7# J55 EUE 8rd	415		27,000	27,000
Sucker Rods	481			
SURFACE EQUIPMENT:				
Line Heaters	455			
Heater Treater	455			
Tanks	440			
Dehydration	470			
Separation	450			
Gas Meas. Equipment	475			
Flowlines	420			
Pump Equipment	480			
Engines	483			
Elec. Equipment & Power lines	462			
Misc. Valves, Fittings, Etc.	465			
Installation Costs	495			
Total Tangible Costs		\$56,000	\$118,000	\$174,000
GRAND TOTAL		\$439,000	\$272,000	\$711,000

This AFE is an Estimate of Costs only. Approval of same is a commitment to pay your proportionate share of the actual costs in drilling to the objective depth specified or complete the work herein specified.

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

WELL LOCATION AND ACKNOWLEDGMENT DATA			
API Number		Pool Code	Pool Name
Property Code	Property Name		Well Number
OGRIID No.	Operator Name		Elevation
			4527.68

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot 1dn	Feet from the North/South line	Feet from the East/West line	County
	26	32S	17W		660'	660'	Hidalgo

¹¹ Bottom Hole Location If Different From Surface

Section 16 Location 1 Distance from Survey									
1/4, or lot no.	Section	Township	Range	Lot 1/4	Feet from the	North/South line	Feet from the	East/West line	County
" Dedicated Acres	" Joint or Infill	" Consolidation Code	" Order No.						

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

16			
660' 0			
660' 0			

17 OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

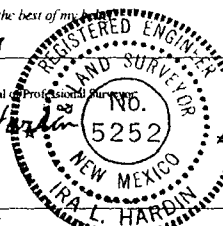
Signature _____ Date _____

Printed Name _____

18 SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge.

9-26-07
Date of Survey

Signature and Seal of Professional Surveyor


5252
Certificate Number

GEOLOGIC EXPLANATION
for the approval of the

HUGHES EXHIBIT NO. 12

HUECO SOUTH UNIT AREA

HIDALGO COUNTY, NM

Regional Setting

The Pedregosa Basin is located in southwest New Mexico, southeast Arizona and Chihuahua Province of Mexico and originated in early Paleozoic time. A significant portion of the basin (and the main emphasis of this report) is positioned in the southeast corner of Hidalgo County, New Mexico (as is the Hueco South Unit area) and has a similar depositional history as the Midland and Delaware basins and many of the same rock units.

The Hueco South Unit, if approved, will be located west of the Alamo and Big Hatchet Mountains and offers extraordinarily attractive structural targets, dramatic stratigraphic traps and major reef trends that remain untested for oil and natural gas reserves. Also the Percha shale (Woodford equivalent) holds superlative potential and is laterally pervasive over the entire unit area. The only well located within the unit area was drilled in 1958 at a location on the eastern down dip portion of the unit. The Humble #1 BA State well tested gas at 86 MCFGPD from the Permian Epitaph formation (Abo equivalent) and is on the western margin of the U-Bar syncline that defines the depo-center of the basin (through time) within the USA. Reserves for the US Pedregosa Basin have been estimated at 13TCF and 2 billion barrels of oil.

Dan A. Hughes Company, L.P., the Operator of the proposed Hueco South Unit, has recently contracted with Dawson Geophysical Company to acquire 3-D seismic data to better define drilling targets near the old Paleozoic basin center in Hidalgo County. Seismic operations are expected to commence in November 2007 or as soon as a field crew is available to the site.

However, in the event the final processed and interpreted 3-D seismic data is unavailable for determining a superior location prior to December 1, 2007, it is the intent of the operator to drill the initial well (Hueco South Unit 26 State #1) in the unit to test the Percha Shale (and the Permian Abo reef formation) in Township 32 South, Range 17 West, Section 26, in the southwest quarter at 660' FWL and 660' FSL achieving a proposed total depth of 6,600' subsurface. This location has been selected utilizing 2-D seismic data acquired and reprocessed in 2005 and is currently being surveyed and platted (along with the source and receiver lines) by Dawson's surveying contractor.

Deposition History

Ordovician through Mississippi Age

The basin is characterized by four main depositional cycles, which are separated by major hiatuses and erosional truncation. The oldest cycle is Ordovician through Mississippian and is dominated carbonate deposition. Both conventional and unconventional plays are attractive targets in this sequence of rocks. The two major reservoir units in this cycle are the Ordovician El Paso dolomites and the Montoya dolomite. The El Paso is equivalent to the Ellenberger Formation in the Midland and Delaware basins. These plays are expected primarily on structural highs such as those observed in the Hueco South Unit area.

The unconventional gas play in this sequence is the Percha shale, which is age equivalent to the Woodford shale in the Midland and Delaware basins as well as the Mid-Continent region. The Woodford is a hotly pursued play in these areas and is yielding considerable success. However, it should be noted that the Percha shale within the Hueco South Unit area ranges in thickness from 300 to 350 feet as opposed to less than 100 feet of shale encountered in most of the areas where the Woodford is actively being explored and developed.

The TOC values measured in the Percha, measure less than what might be expected due to inherently poor quality samples. The readings are from composite well cuttings that were stored "open-shelved" for decades prior to analysis. Outcrop samplings were also used. Consequently the reported values (see section on Source Rock and Thermal Maturity) are lower than those that are freshly sampled and properly obtained. Therefore, it is reasonable to assume original TOC values of 2.5%, or better, are characteristic for the Percha. Thermal maturity values are primarily in the dry gas window. The Percha shale, due to its pervasive nature through out the Hueco South Unit area, is a most attractive exploration target.

Pennsylvanian through Permian Age

The second depositional cycle is Pennsylvanian through Permian age. This cycle exhibits the most attractive opportunities in the Pedregosa Basin in the Permo - Penn sequence which was deposited in a dramatically smaller basin than the previous cycle. Large well-developed reef tracks, depositional onlap, depositional terminations and erosional truncations characterize the Permo-Penn cycle in the Hueco South Unit area.

Sparse drilling in the region, however, failed to test any of these targets. 2D seismic data and nearby reef outcrops verify the presence of these plays in the subsurface. Seismic reef profiles are observed in the Hueco South Unit trending from south to north at (varying depths) across major portions of the unit. Therefore, the main objectives within the unit area are reef sequences and depositional on lap in the Horquilla formation whose Midland and Delaware age equivalents are the Wolfcamp, Cisco, Canyon, Strawn, Atoka and Morrow formations.

Additionally, the Permian age Epitaph and Concha formations are also characterized by reef buildups, depositional bed terminations and erosional truncation of their upper members. These formations are age equivalent to the San Andres, Bone Springs and Abo formations in the Midland and Delaware basins and are significant targets within the unit.

Cretaceous Age

The third depositional cycle is early Cretaceous in age and duration and appears as a thin veneer of sediments that were deposited across the basin with an extraordinarily thick sequence of rocks being deposited in the U-Bar syncline. The syncline is a deep basinal trough, which trends from northwest to southeast through southwest New Mexico and into Mexico. Rich source beds and good reservoir units are expected in the U-Bar formation, which may exceed 3500' in total thickness in syncline. The eastern margin of the unit is at the western edge of the U-Bar syncline.

Tertiary and Quaternary Age

The fourth and final depositional cycle is the Tertiary and Quaternary age sequence of rocks. These units were deposited as lacustrine, marginal lacustrine and fluvial sediments in the Playas and Hachita Valleys. They form a relatively thin veneer and do not hold significant hydrocarbon value. In addition both intrusive and extrusive rocks were implaced at this time but it appears the overall effect of volcanic activity in the area is limited since most of the wells in the area are not thermally altered. Consequently, most of the source rocks in this portion of the basin are in the early to late gas window and the vast majority of the hydrocarbon reserves in the Hueco South Unit area are expected to be natural gas.

Tectonic History

The Pedregosa basin has been subjected to extensive tectonic activity throughout its history creating major concerns about maintaining trap integrity. Our analysis which includes the use of seismic data, demonstrates the existence of undisturbed basinal sequences in the Hueco South Unit area where the sediment packages (of the Permo-Penn and Cretaceous age sequences) remain in tack. These packages are highly prospective over the targeted unit area.

Furthermore, it can be reasonably assumed from the data that basinal packages containing Pennsylvanian through Permian section are undisturbed by the sequence of tectonic events that effected the region and that reef trends extend laterally from the east boundary to west boundary of the Hueco South Unit. It is within the unit that these packages, that trap and seal hydrocarbon accumulations, remain in tack and represent the greatest opportunity for finding significant reserves. The assembled leasehold acreage within the Hueco South Unit has been selected for unitization for the purpose of exploiting these sequences and other structural traps.

Additionally, localized regional uplifts (during the Paleozoic and Mesozoic age) have resulted in erosional truncation and non-deposition of various stratigraphic units. Later

tectonic events involved late Cretaceous thrust faulting, followed by basin and range extensional faulting, with the most recent event being the localized emplacement of volcanics. The volcanic event involved both surface flows and intrusions. However, despite the extensive tectonic activity in the region undisturbed basinal sequences (particularly in the Permo-Penn sequence as well as several large structural features) remain intact.

Source Rock and Thermal Maturity

Generally, southwest New Mexico (and specifically the Hueco South Unit area) is prone to generating (and accumulating) natural gas throughout most of the objective horizons. Geochemical data confirms this fact and proves the existence of source rocks with adequate kerogen and necessary thermal maturity to produce gas in quantities warranting exploration activities.

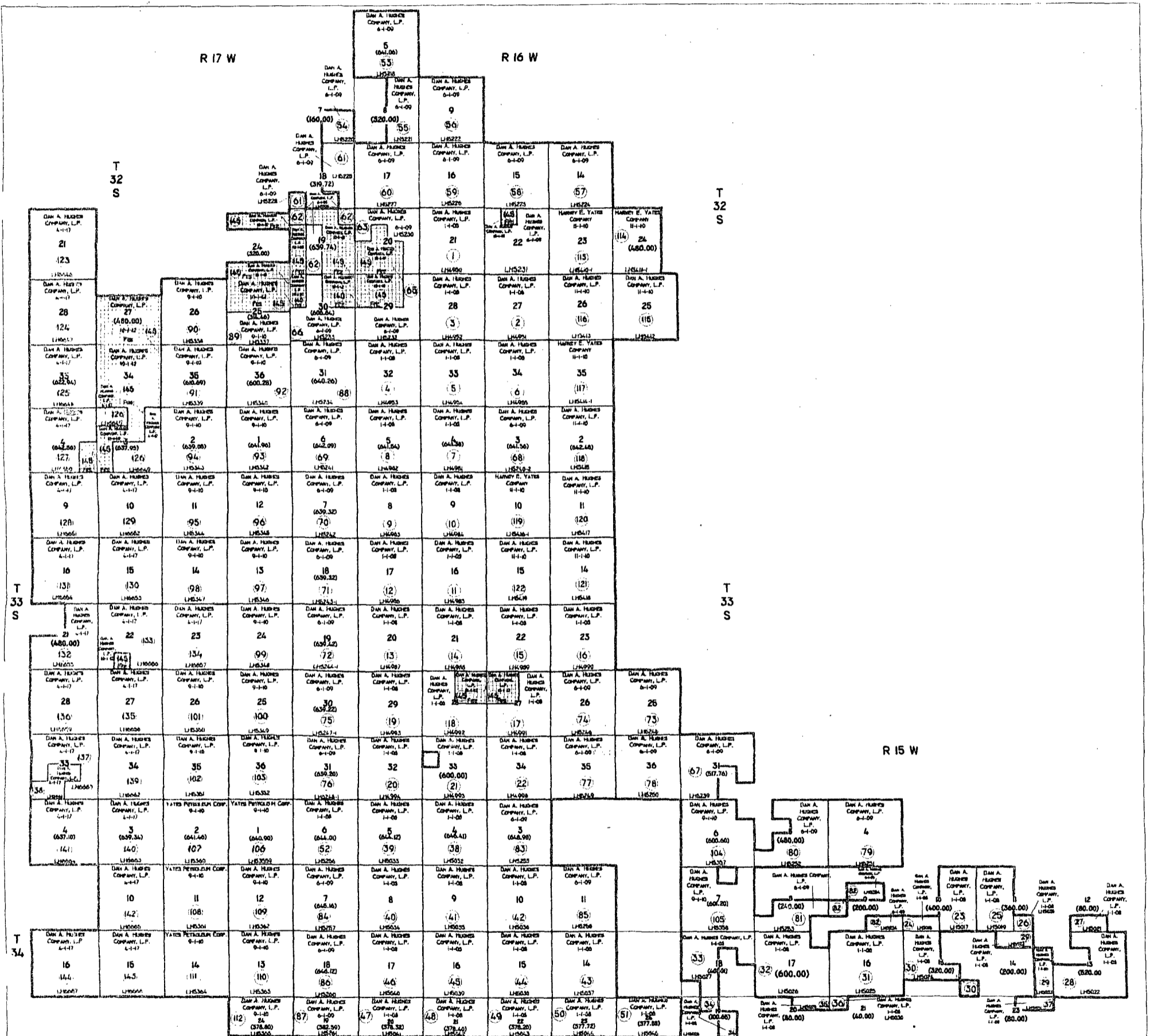
Also, it is important to recognize that throughout most of the region the later igneous activity did not overcook sediments and only adversely affects thermal maturity in localized areas. TOC values of .88 to 1.36% are described with thermal maturity levels ranging from 2 to 4 TAI (thermal alteration index) or late oil through late gas generation. It is also important in any analysis of these figures to recognize that the foundational source of these measurements were poorly preserved well samples and outcrop data.

Consequently, the TOC numbers reported in published data are inherently low and do not adequately represent adjusted projected values. It is expected that carefully obtained shale samples within the Hueco South Unit area will yield TOC values in the range of 2.00%, or greater.

In closing, we refer you to an extensive rock study of the Pedregosa Basin that was conducted by Sam Thompson of the New Mexico Oil Conservation Division in 1981. He concluded in his report that the US portion of the basin could possibly yield ultimate oil and gas reserves in the range of 13 TCF and 2 billion barrels of oil. A major portion of these hydrocarbons may underlie the Hueco South Unit.

Gary Kornegay, Geologist
Stonebridge Energy, LLC
14275 Midway Road
Suite 220
Addison, TX 75001
AAPG # 434471
Texas License #4239
Wyoming Certified Geologist #PG-745

HUGHES EXHIBIT NO. 2



	ACREAGE	PERCENTAGE
STATE	78,942.60 AC.	95.55%
FEE	3,680.00 AC.	4.45%
TOTAL	82,622.60 AC.	100.00%

TRACT NO. 25
UNIT OUTLINE
TRACT (LEASE) OUTLINE
SECTION LINE

ALL SECTIONS CONTAIN 640.00 ACRES UNLESS OTHERWISE NOTED.

EXHIBIT A
HUECO SOUTH UNIT AREA
HIDALGO COUNTY, NEW MEXICO

CREATED BY: BONITA L. L. JONES
DATE: OCTOBER 2, 2007