

STATE OF NEW MEXICO

**ENERGY, MINERALS AND NATURAL
RESOURCES DEPARTMENT**

OIL CONSERVATION

CASE #: 14308

EXHIBIT 4



THREE SPAN OIL & GAS, INC.

400 W. Illinois, Suite 1250
P.O. Box 51538
Midland, TX 79710-1538
Office: 432-684-6511
Fax: 432-684-6495

FARMOUT AGREEMENT

THIS AGREEMENT, made and entered into this **5th day of December, 2008**, by and between **Three Span Oil and Gas Company**, P.O. Box 51538, Midland, Tx. 79702, **E. Earl Baldrige, III**, P.O. Box 50716, Midland, Tx. 79710 and **WKKA, Ltd.**, P.O. Box 10354, Midland, Tx. 79702 (hereinafter collectively referred to as "Farmor"), and **PEREGRINE PRODUCTION, LLC**, whose address is P. O. Box 1844, Midland, Texas 79702 (hereinafter referred to as "Farmee"),:

WITNESSETH:

I.

THAT, Farmor represents without warranty of title of any kind, either expressed or implied, that it owns the following described leases and lands:

Lessor:	USA
Lessee:	Fabco Oil Company, Inc.
Dated:	4-1-83
State Lease No.:	NM 54856
Leases Covered:	<u>Township 16 South, Range 28 East</u> Section 30: E2SE, NENE Surface to the base of the Wolfcamp formation only Eddy County, New Mexico

II.

Farmee hereby agrees to commence within one (1) year of the date of this agreement the actual drilling of a test well or the reentry of an existing wellbore at a location of its choice in the above described leases and lands or at a location that includes some part of the above described leases and lands within a proration unit and to pursue the drilling of this test well with due diligence and in a good and workman like manner until Farmee has drilled to and/or tested a depth sufficient to test the Wolfcamp formation as identified by and to the satisfaction of Farmor or to a depth of 6,900 feet, whichever is the lesser depth. The completion of said well shall be no longer than 180 days from commencement. In the absence of the commencement of the actual drilling of a test well or the reentry of an existing wellbore, as

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described herein within the initial one year term as set out above, on the leases and leases and lands described herein or other leases and leases and lands that have been pooled with the herein described leases and leases and lands so as to form a proration unit, this agreement shall automatically terminate.

III.

Within one hundred eighty (180) days from the completion of the first well as a well capable of producing oil and/or gas or as a dry hole, Farmee agrees to conduct a continuous drilling program, at the sole option of Farmee, with not more than one hundred eighty (180) days elapsing between the completion of one well and the commencement of another well, until the acreage subject hereto is developed to a density of one well for each standard spacing proration unit prescribed by rules of the New Mexico Oil and Gas Conservation Commission or if there are no applicable spacing and proration rules, then one well for each 40 acre tract in the event of oil production and one well for each 320 acre tract in the event of gas production. In subsequent wells, Farmee will be obligated to drill to the productive formation obtained in the first well. Completion shall be defined as the date total depth is reached. Commencement shall be defined as the date of spudding in.

IV.

Farmee agrees to properly test to its satisfaction any formation that, either before or after logging as hereinafter provided, appears favorable to it for the production of oil and/or gas. Farmee agrees to provide and perform those services outlined in Exhibit "A", attached to this agreement and made a part hereof.

Farmor's representative shall have full access to the well and all records thereof during all operations. Farmor shall be given all information as and when obtained in connection with drilling operations and shall be permitted to observe all operations. In the event the test is a dry hole, Farmor shall have the opportunity to run a velocity survey to the bottom of the hole at Farmor's expense before the well is plugged and abandoned. Upon abandonment of any and all wells drilled hereunder, Farmee agrees to plug same in accordance with the rules and regulations established by the New Mexico Oil and Gas Conservation Commission and pay for all damage to the surface which may have been suffered by reason of Farmee's drilling and plugging operations. Farmee shall indemnify, save and keep Farmor from any and all risk, liability, expense and claims of every kind and character that might arise out of Farmee's operations hereunder.

V.

Upon written request within thirty (30) days after completion of the test well as a producer of oil and/or gas in commercial quantities and upon Farmee's strict compliance with all the terms and conditions hereof to Farmor's satisfaction, Farmor agrees to assign to Farmee all of its leasehold interest in and to the proration unit in which the test well was drilled but only from the surface to a depth of 100 feet below the deepest producing perforation in the well. Should the proration unit be of an irregular shape, Farmee will provide Farmor with a metes and bounds description to facilitate assignment of the proration unit.

Upon written request within thirty (30) days after completion of any additional wells as producers of oil and/or gas in commercial quantities and upon Farmee's strict compliance with all the terms and conditions hereof to Farmor's satisfaction, Farmor agrees to assign to Farmee all of its leasehold interest in and to the proration units in which the additional wells are drilled but only from the surface to a depth of 100 feet below the deepest producing perforation in the wells. Should the proration units be of an irregular shape, Farmee will provide Farmor with a metes and bounds description to facilitate assignment of the proration units.

Farmor shall assign to Farmee all its working interest while reserving a 25% overriding royalty interest less existing royalties, overriding royalties and other such payments out of production on all oil and/or gas produced, reduced in proportion to the assigned working interest or by pooling or communitization. Farmor's overriding royalty interest is to be free and clear of all cost and expense excepting gross production taxes and ad valorem taxes. Such overriding royalty interest shall extend to the oil and gas leases that may be assigned hereunder and to any renewals or extensions thereof.

The term of any assignment given under this agreement shall be for a period of ninety (90) days from the date of each assignment and so long thereafter as oil or gas is produced in paying quantities from the assigned premises or leases and lands pooled therewith. If during the term of the assignment the production of oil or gas shall cease from any cause, this assignment shall not terminate if Farmee commences operations for drilling or reworking within sixty (60) days after the cessation of such production and shall remain in force and effect so long as operations are prosecuted with no cessation of more than sixty (60) days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from the assigned premises or leases and lands pooled therewith. If the assignment shall terminate as provided herein, Farmee agrees to re-assign all its right, title, and interest, in the leases and lands subject to said termination, to Farmor, within thirty (30) days of such termination.

VI.

It is further agreed that Farmor shall continue to pay the annual delay rentals that may be payable under any of the leases that may be assigned hereunder, billing Farmee for 100% thereof for as long as this Farmout Agreement remains in effect. Farmee is to tender any shut-in gas royalty payments that may be required to maintain said leases in force and effect, and agrees to promptly furnish Farmor with a receipt for the same. Nevertheless, neither Farmor nor Farmee shall be held liable for failure to pay said rentals and/or royalty through mistake, clerical error or oversight.

VII.

Before Farmee plugs and abandons the initial test well, Farmee hereby agrees to immediately notify Farmor of Farmee's intention to do so. Farmor shall then have forty-eight (48) hours after receipt of said notice to decide whether it wishes to take said well over. In the event Farmor elects to take over said well, such takeover shall be without any prior cost to Farmor except that Farmor agrees to pay Farmee the reasonable salvage of any and all lease and in-hole well equipment (excepting surface casing) less the reasonable estimated cost of salvaging said equipment then existing in the well or upon the drillsite and further, Farmee shall relinquish to Farmor any and all rights to which Farmee may be entitled in that proration unit and well under the terms of this agreement. Operations on the above well from and after date of take-over shall be at Farmor's sole cost, risk and expense.

Further, prior to the abandonment of each producing well hereafter drilled by Farmee on the premises involved herein, Farmee shall give Farmor at least thirty (30) days' advance notice prior to abandonment of the well. Farmor thereon shall have the right and option to take over the well in its then condition for additional testing by any method Farmor desires, including but not limited to deepening or plugging back for completion attempts at any depth, by paying Farmee the reasonable salvage value of any salvable material in the hole, less the cost of salvaging same. If Farmor elects not to take over the well, Farmee shall plug and abandon same at its sole cost, risk and expense. If Farmor elects to take over the well, Farmee shall immediately assign to Farmor all rights acquired by Farmee hereunder. All operations on any well taken over by Farmor shall be at its sole cost, risk and expense and Farmor shall plug and abandon any well taken over by it whenever Farmor shall determine to abandon same.

VIII.

Farmor shall have no control over the drilling, testing and completing operations provided for in this agreement, said operations to be conducted at Farmee's sole cost, risk and expense. None of such operations shall be considered as joint, it being expressly understood that this

agreement does not constitute or provide any type of partnership or joint venture. It is understood that time is of the essence in fulfilling the provisions of this agreement as provided herein. No provision of this agreement or assignment herein provided for shall be modified, altered or waived except by written consent of Farnor.

IX.

If during the drilling of the test well Farnor shall encounter granite or any other practically impenetrable substance or encounter mechanical difficulties or if the hole is lost for any reason not reasonably within control of Farnor, Farnor shall have and is hereby granted the right to abandon said well at its sole cost, risk and expense and Farnor may within thirty (30) days after such abandonment commence the actual drilling of a substitute well at a location which would, under the terms of this agreement, have been permissible for the location of the well abandoned. If such substitute well is commenced, it shall thereafter be drilled to the Contract Depth and thereupon Farnor's duties and obligations therein and the provisions hereof respecting the test well shall apply to such substitute well, and such substitute well shall be deemed to be the test well for all purposes of this agreement.

X.

During the course of all operations conducted pursuant to this agreement, Farnor shall abide by all applicable laws and all lawful orders, rules and regulations of governmental authorities having jurisdiction.

XI.

While operations are being conducted by Farnor, all areas in the vicinity of such operations, including roads, will be as nearly as is reasonably possible kept free from all junk, paper, cans, old iron, trash and all other forms of debris. Within a reasonable time after operations on each site are completed, the site will be finally cleaned and policed and pits shall be smoothed and leveled so as to restore the surface to its former condition as nearly as is reasonably possible. Should it be necessary to install new gates or cattleguards in existing fences, Farnor agrees to properly install and brace same.

XII.

It is expressly understood that the terms of this agreement shall be binding upon the parties

hereto, their heirs, successors and assigns.

XIII.

Farmor shall not be obligated to perform any curative work with respect to titles involved in the Farmout Acreage or furnish any abstracts or other material other than such contract or title papers as Farmor now has in its possession; however, any curative work accomplished by Farmee shall inure to the benefit of Farmor and Farmor shall promptly be furnished copies of any instruments and/or legal opinions obtained by Farmee in connection with the Farmout Acreage.

XIV.

Farmee covenants and agrees to market Farmor's share of any production from operations on the above described land or leases and lands that include the above described land within a proration unit under the same terms and conditions that Farmee is marketing its share of said production while not charging Farmor any marketing fee and will provide Farmor the right and opportunity to ratify or join in any contract for the sale of Farmee's share of production from operations on the property. Farmee shall not assign, convey, relinquish, or grant any of its stated or implied rights hereunder this agreement without prior written consent of Farmor which shall not be unreasonably withheld.

XV.


Each of the parties shall, from time to time and at all such times, do all such other and further acts and deliver and execute such other and further instruments and documents as may be reasonably required in order to fully perform and carry out the terms and provisions of this agreement.

This agreement may be executed in any number of counterparts with the same force and legal effect as if all executions were of one single instrument.

If this agreement correctly expresses the agreement between us, please signify Farmee's acceptance by executing and returning one copy of this agreement to Three Span Oil and Gas, Inc.

Three Span Oil and Gas, Inc.


By: E. Earl Baldrige


E. Earl Baldrige, III

Its : PRESIDENT

WKKA, Ltd.


By: EMNG, LLC, General Partner

Its : William M. Wallace President

ACCEPTED, APPROVED AND AGREED to this 14th day of December, 2008.

PEREGRINE PRODUCTION, LLC

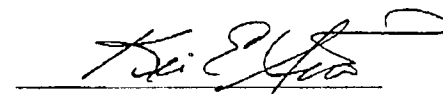

Kirk E. Smith
President

EXHIBIT "A"

Attached to and made a part of that certain Farmout Agreement dated December 5, 2008 by and between Three Span Oil and Gas, Inc. et al, as Farmor, and Peregrine Production, LLC, Farnee

Three Span Oil and Gas, Inc. requests the following information on the referenced well:

1. Daily drilling and completion reports e-mailed (earlb@threespan.com and billw@threespan.com) OR faxed (432- 684-6495) OR phoned in (432-) daily and mailed weekly to Three Span Oil and Gas, Inc. , Attn: Bill or Earl , at 400 W Illinois Ste 1250 , Midland, Texas 79701.
2. One (1) copy of all forms filed with State or Federal agencies.
3. One (1) copy of field prints and two (2) copies of final prints of all logs run.
4. One (1) copy of all drill stem test charts and reports.
E-mail DST's to: earlb@threespan.com and billw@threespan.com
5. One (1) copy of preliminary and final prints of all core analyses.
6. One (1) copy of daily prints of any mud logging reports.
E-mail daily mud logs to: earlb@threespan.com and billw@threespan.com
7. One (1) copy of any fluid or gas analyses run.
8. Notification of all coring, testing and/or logging operations to:

(432) 684-6511 (wk)
(432) 553-5814 (cell)
9. Notification of drilling or other operational problems to:

Please give sufficient notice prior to these operations for our representative to be present.