

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division

Irrevocable Letter of Credit
(5-Year - Automatically Renewable)

File with Oil Conservation Division, 1220 South St. Francis, Santa Fe, New Mexico 87505

LETTER OF CREDIT NO. 7823140 API Number 30-031 - 20150
Effective Date: 08-17, 2009

FIRST BANK & TRUST EAST TEXAS [Name of FINANCIAL INSTITUTION], a national or state chartered banking association, as ISSUER, hereby establishes this irrevocable Letter of Credit for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (or successor agency) of the State of New Mexico (the DIVISION), pursuant to NMSA 1978, Section 70-2-14, as amended, for an aggregate amount not to exceed SIX THOUSAND, FIVE HUNDRED FIFTY Dollars (\$6,550.00) in United States dollars (Face Amount) effective on the date indicated above. This Letter of Credit is established for NACOGDOCHES OIL & GAS INC [Name of Operator], whose address is 816 NORTH STREET

NACOGDOCHES, TEXAS as APPLICANT.

1. The APPLICANT has requested that this letter of credit be issued to the DIVISION as financial assurance for the APPLICANT pursuant to statutory and regulatory requirements of the State of New Mexico set forth in Section 70-2-14 NMSA, as amended, and in Rule 101 [19.15.3.101 NMAC].

2. This Letter of Credit is irrevocable for the term hereof, and is furnished as financial assurance for the compliance by the APPLICANT with all applicable statutes of the State of New Mexico and with all rules and orders of the Oil Conservation Commission and DIVISION, including requirements to cause wells in the State of New Mexico now or hereafter owned or operated by Applicant to be properly plugged and abandoned, if dry, or when no longer productive or useful for a beneficial purpose, in accordance with the rules and orders of the Division, including but not limited to Rule 101 [19.15.3.101 NMAC] and Rule 202 [19.15.4.202 NMAC], as the same now exist or may be hereafter amended.

3. This Letter of Credit will expire on 08-17-2014 [not less than five (5) years from the effective date of the Letter of Credit]; unless sooner released by written notice to the ISSUER by the DIVISION. Upon the expiration date, this Letter of Credit shall be automatically renewed for an additional term of five years commencing on such expiration date, and likewise for successive terms of five years each upon the occurrence of each subsequent scheduled expiration date, unless the ISSUER has, at least thirty days prior to any scheduled expiration date, mailed written notice of non-renewal, by certified mail, return receipt requested, to the DIVISION. This Letter of Credit may be forfeited and collected by the DIVISION if not replaced by approved financial assurance at least 30 days before the expiration date hereof.

4. Funds under this Letter of Credit are available against the DIVISION's sight draft, in the form of Exhibit A, specifying Letter of Credit No. 7823140, delivered to the office of the ISSUER at 2510 WEST FRANK ST LUFKIN TX 75904 [address], accompanied by a certificate in the form of Exhibit B, signed by the Director of the DIVISION or the Director's duly authorized representative. At the Division's sole election, the DIVISION may present sight drafts for less than the Face Amount at any time and from time to time so long as this letter of credit remains in force, provided that the aggregate amount of all such drafts shall not exceed the Face Amount.

5. If the ISSUER receives the DIVISION's sight draft(s) and certificate(s) as provided in Paragraph 4, above, on or before the expiration or termination of this Letter of Credit, the ISSUER shall make such amount as the DIVISION may specify, up to an aggregate amount not to exceed the Face Amount of this Letter of Credit, available to the DIVISION no later than 5 p.m. in Santa Fe, NM on the second business day following the ISSUER's receipt of the sight draft and certificate, and in such a manner as the DIVISION may specify.

EXHIBIT A - SIGHT DRAFT

to
Letter of Credit No. 7823440

Date

PAY TO THE ORDER OF NEW MEXICO OIL CONSERVATION DIVISION

(\$ _____) _____ DOLLARS

TO: (Name of ISSUER)
and
(Address - Must be physical address)

FIRST BANK & TRUST EAST TEXAS
2510 WEST FRANK ST
LUFKIN TX 75904

New Mexico Energy Minerals and
Natural Resources Department
Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505

By: _____

Date _____

Initials of Representative of
Financial Institution

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EXHIBIT B

Letter of Credit No. ^{to} 7823140

I, _____, a duly authorized representative of the New Mexico Oil Conservation Division, hereby certify that: (1) the drawing in the amount of _____ Dollars (\$ _____), by sight draft accompanying this certificate, under Letter of Credit No. 7823140 dated 08-17-09 issued by you, is duly authorized in accordance with the New Mexico Oil and Gas Act (NMSA 1978, Sections 70-2-1 through 70-2-38, as amended) and applicable rules of the New Mexico Oil Conservation Division; (2) the amount of the sight draft, together with any amounts previously drawn under the Letter of Credit, does not exceed the Face Amount of the Letter of Credit; and (3) the New Mexico Oil Conservation Division has directed the forfeiture of the Letter of Credit.

New Mexico Oil Conservation Division

By: _____

Date _____

Initials of Representative of
Financial Institution

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