

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER, INC.

ATTORNEYS AT LAW

MIDLAND, TEXAS

FASKEN CENTER • TOWER TWO
550 WEST TEXAS AVENUE, SUITE 800 • 79701
P.O. BOX 1540 • 79702
432/682-1818
FACSIMILE 432/682-1351
FACSIMILE 432/682-4884

ALLEN G. HARVEY
LICENSED IN TEXAS AND NEW MEXICO

NEW MEXICO
BOARD CERTIFIED SPECIALIST
IN NATURAL RESOURCES -
OIL & GAS LAW
DIRECT DIAL 688-0290
aharvey@stubbemanlawfirm.com

August 18, 2004

ORIGINAL DIVISION ORDER TITLE OPINION

David H. Arrington Oil & Gas, Inc.
214 W. Texas, Suite 400
P. O. Box 2071
Midland, TX 79702

Attn: David H. Arrington

Re: The gas and associated liquid hydrocarbons producible from the June Danglade Speight, et al. oil and gas leases covering the following land in LEA COUNTY, NEW MEXICO:

Township 15 South, Range 34 East, NMPM
Section 26: S/2,

containing 320 acres, more or less.

(Green-Eyed Squealy Worm #1 Well)

Gentlemen:

For division order purposes, we have examined the following:

PRIOR TITLE OPINION

Our Original Drilling Title Opinion dated January 6, 2003 addressed to you based upon an abstract covering the period from inception of the records to November 13, 2002 at 7:00 a.m.

ABSTRACT

Abstract No. 04-294 certified by Elliott & Waldron Title & Abstract Co., Inc. as covering the mineral estate only of captioned land for the period from November 13, 2002 at 7:00 a.m. to May 7, 2004 at 7:00 a.m., containing 113 pages.

INSTRUMENTS

1. Copy of e-mail dated May 11, 2004 from Beth Lawless to the undersigned stating that the date of first gas sales was May 10, 2004.
2. Copy of e-mail dated March 22, 2004 from Beth Lawless to Randy Lewicki concerning the interests of the Arrington investors.
3. Copy of Green-Eyed Squealy Worm #1 WI Worksheet showing the calculations for the Arrington investors.
4. Copy of Participation Agreement, West Salty Dog Prospect, dated effective May 2, 2002 between David H. Arrington Oil & Gas, Inc. and Chesapeake Exploration Limited Partnership.
5. Copy of Participation Agreement, West Salty Dog Prospect, dated January 26, 2004 between David H. Arrington Oil & Gas, Inc. and Quanah Exploration Limited Partnership.
6. Copy of Participation Agreement, West Salty Dog Prospect, dated November 15, 2003 between Marshall & Winston, Inc. and David H. Arrington Oil & Gas, Inc.

7. Copy of proposed assignment from David H. Arrington Oil & Gas, Inc. to Marshall & Winston, Inc.
8. Copy of proposed assignment from David H. Arrington Oil & Gas, Inc. to Steve L. Holifield, Sr.
9. Copy of proposed assignment from David H. Arrington Oil & Gas, Inc. to Chesapeake Exploration Limited Partnership.
10. Copy of proposed assignment from David H. Arrington Oil & Gas, Inc. to Quanah Exploration Limited Partnership.
11. Unexecuted copy of Joint Operating Agreement dated November 20, 2003, more particularly described below.

Based upon examination of the foregoing and subject to the title requirements hereinafter made, we find that as of May 7, 2004 at 7:00 a.m., the gas and associated liquid hydrocarbons producible from captioned land are owned as follows:

DIVISION OF INTEREST

June Danglade Speight, as her separate property (Lease No. 1)	1/4 x 80/320	.0625000 RI
Marshall & Winston, Inc. (Lease No. 2)	3/4 x 1/4 x 80/320	.0468750 RI
Winston Partners, Ltd. (Lease No. 3)	1/4 x 1/4 x 80/320	.0156250 RI
Bank of America, N.A., Trustee of the Gay Crabb Karger Trust (Lease No. 4)	.5750 x 1/4 x 40/320	.0179688 RI
Bank of America, N.A., Trustee of the Lawrence E. Karger Trust (Lease No. 4)	.1750 x 1/4 x 40/320	.0054688 RI
Bank of America, N.A., Trustee of the Billy Easley Trust (Lease No. 4)	.25 x 1/4 x 40/320	.0078125 RI
H-D Mineral Properties, a partnership (Lease No. 5)	1/2 x 1/4 x 80/320	.0312500 RI
Bobby V. Bell and wife, Christine Jane Bell, as joint tenants (Lease No. 6)	1/2 x 3/16 x 80/320	.0234375 RI
Don C. Dennis, Trustee of the J. M. Dennis Trust (Lease No. 7)	1/16 x 1/4 x 40/320	.0019531 RI
Don C. Dennis, as his separate property (Lease No. 7)	1/48 x 1/4 x 40/320	.0006510 RI
Heirs or devisees of Barron Duff Dennis (Lease No. 8)	1/48 x 1/4 x 40/320	.0006510 RI
JoAnn DeNitto, as her separate property (Lease No. 9)	1/48 x 1/4 x 40/320	.0006510 RI
Angela McAlpin, Personal Representative of the Estate of G. T. McAlpin, deceased (Lease No. 10)	1/16 x 1/5 x 40/320	.0015625 RI
The Successor Trustee of the Lora B. McAlpin Trust dated 7/23/91 (Lease No. 11)	1/16 x 1/4 x 40/320	.0019531 RI
Sandra Lee Ponder Joy, as her separate property (Lease No. 12)	1/8 x 1/4 x 40/320	.0039063 RI
Western Commerce Bank, Trustee of the Frances J. Freeman Revocable Living Trust u/t/a dated 9/1/92 (Lease No. 13)	1/8 x 7/32 x 40/320	.0034180 RI

Bert Ronald Wright, as his separate property (Lease No. 14)	1/8 x 1/4 x 40/320	.0039063 RI
Barbara Wright Seward, as her separate property (Lease No. 14)	3/40 x 1/4 x 40/320	.0023437 RI
Paul D. Seward and Barbara J. Seward, Trustees of the Seward Family Trust u/d/t dated 6/26/03 (Lease No. 14)	1/20 x 1/4 x 40/320	.0015625 RI
Charlsie E. Savage and husband, Sidney Savage (Lease No. 15)	1/8 x 1/4 x 40/320	.0039063 RI
G. G. Gore and wife, Carol J. Gore (Lease No. 16)	1/8 x 1/4 x 40/320	.0039063 RI
Dale Douglas, whose wife is Renee Douglas	.01 x 1/2 x 80/320 <u>plus</u> .01 x 1/16 x 40/320	.0013281 ORI
Alpine Petroleum, Inc.	.01 x 1/2 x 80/320 <u>plus</u> .01 x 1/16 x 40/320	.0013281 ORI
John R. McRae	.01 x 1/2 x 80/320 <u>plus</u> .01 x 1/16 x 40/320	.0013281 ORI
The Monument Abo Company	.0325 x 1/2 x 80/320 <u>plus</u> .02 x 1/16 x 40/320	.0042188 ORI
David Petroleum Corp. (.0070625 WI)	.226 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0054072 WI
Yates Petroleum Corporation (.0102156 WI)	.3269 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0078213 WI
Yates Drilling Company (.0014594 WI)	.0467 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0011173 WI
Abo Petroleum Corporation (.0014594 WI)	.0467 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0011173 WI
Myco Industries, Inc. (.0014594 WI)	.0467 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0011173 WI
McMillan Ventures, LLC (.0033313 WI)	.1066 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0025505 WI
McMillan Production Company, Inc. (.0026478 WI)	.08473 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0020272 WI
Permian Exploration Corporation (.0029897 WI)	.09567 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0022890 WI
Michael A. McMillan and Teresa L. McMillan, his wife (.0003125 WI)	.01 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0002393 WI
Edward N. David, marital status unknown (.0001563 WI)	.005 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0001196 WI

Keith E. McKamey (.0000781 WI)	.0025 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0000599 WI
William B. Owen (.0000781 WI)	.0025 x (1/8 x 3/4 <u>plus</u> 1/8 x 25/32) x 40/320	.0000599 WI
Marshall & Winston, Inc.	.2666667 x 3/4 <u>plus</u> .0029740 x 3/4	.2022304 WI *
Steve L. Holifield, Sr., marital status unknown	.0799154 x 3/4 <u>plus</u> .0008912 x 3/4	.0606050 WI
Quanah Exploration Limited Partnership	.0833333 x 3/4	.0625000 WI *
Chesapeake Exploration Limited Partnership	.3196615 x 3/4 <u>plus</u> .0035650 x 3/4	.2424198 WI
David H. Arrington Oil & Gas, Inc.	.2094076 x 3/4 <u>plus</u> .0023354 x 3/4	.1588072 WI *

* After payout as that term is defined in the Marshall & Winston Participation Agreement and the Quanah Participation Agreement and assuming Arrington elects to back-in, these interests will be as follows:

Marshall & Winston, Inc.	.200000 x 3/4 <u>plus</u> .1129740 x 3/4	.1522304 WI
Quanah Exploration Limited Partnership	.0625000 x 3/4	.0468750 WI
David H. Arrington Oil & Gas, Inc.	.2969076 x 3/4 <u>plus</u> .0023354 x 3/4	.2244322 WI

EXISTING OIL AND GAS LEASES

Lease No. 1:

Date: March 16, 2000.

Recorded: Book 1013, page 692, Lea County Records.

Lessor: June D. Speight.

Lessee: David H. Arrington Oil & Gas, Inc.

Lands Covered: S/2 SE/4 of Section 26,
containing 80 acres, more or less.

Interest Covered: All.

Primary Term: Originally three years from date; however, by Amendment dated January 19, 2003, recorded in Book 1204, page 803, Lea County Records, the Lessor and Lessee amended the lease to be for a primary term of four years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay an advanced shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease.

Depository: None provided. All payments are to be made to the Lessor at P. O. Box 1687, Lovington, New Mexico 88260.

Delay Rentals: None provided. This is a paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, plus a tolerance of 10%.

Lease Form: Producers 88 - Producers Revised 1994 New Mexico Form 342P, Paid-Up.

Unusual Provisions: 12. Notwithstanding anything contained herein to the contrary, it is hereby understood and agreed that at the expiration of the primary term, this lease shall terminate as to all lands covered hereby not then included in or otherwise allocated to a "well unit", as hereinafter defined, unless Lessee is producing oil, gas or other hydrocarbons from any well on the leased premises or lands pooled therewith, or is drilling upon said lands across the expiration of the primary term as provided for in the body of this lease, and does not allow more than 180 days to elapse between the completion or abandonment of one well on such land and the commencement of another well thereon until the leased premises have been fully "developed", as hereinafter defined. Operations for drilling of the first such development well must be commenced (a) within 180 days after the expiration of the primary term if production is established under this lease prior to the expiration of the primary term, or (b) within 180 days of completion of the well which is being drilled, tested or completed across the expiration of the primary term. Should Lessee fail to timely commence a well in accordance with the aforesaid 180 day continuous drilling or development prior to the point in time the leased premises have been fully developed, then this lease shall terminate as to all lands not included in or otherwise allocated to a well unit. For the purpose hereof, the term "well unit" shall mean the proration or spacing unit created for a well capable of producing oil and/or gas or other hydrocarbons in paying quantities as in accordance with the applicable rules and regulations of the New Mexico Oil and Gas Commission or other governmental authority having jurisdiction, and the term "fully developed" shall mean the point in time when the entirety of the leased premises has been included in a well unit or units as defined. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed, and as to the lands so fully developed shall terminate as to all depths lying more than 100 feet below the total depth drilled on the leased premises or lands pooled therewith.

13. Payment of shut-in gas royalties will not be permitted to maintain this lease in force for any period longer than two consecutive years without the written consent of Lessor.

Lease No 2:

Date: March 30, 2000.

Recorded: Book 1013, page 92, Lea County Records.

Lessor: Marshall & Winston, Inc.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: Township 15 South, Range 34 East, N.M.P.M.
Section 26: N/2 SE/4

Township 15 South, Range 35 East, N.M.P.M.
Section 23: E/2, SE/4 NW/4, E/2 SW/4, NW/4 SW/4
Section 26: W/2
Section 27: S/2 SE/4, SE/4 SW/4
Section 34: NW/4 NE/4,

containing 1,040 acres, more or less.

Interest Covered: 3/4 interest in the N/2 SE/4 of Section 26.

Primary Term: Originally three years from date; however, by Amendment dated December 9, 2002, recorded in Book 1205, page 816, Lea County Records, the Lessor and Lessee amended the lease to be for a primary term of four years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before sixty days after the date on which a well is shut-in and annually thereafter, Lessee shall pay as royalty the sum of \$1,040.00 per well for each shut-in gas well. The lease may not be extended by payment of such annual shut-in gas well payments in excess of two annual periods.

Depository: All payments are to be made to the Lessor at P. O. Box 50880, Midland, Texas 79710-0880.

Delay Rentals: None provided. This is a paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed 40 acres plus a tolerance of 10% for oil and 640 acres plus a tolerance of 10% for gas.

Lease Form: Special typewritten form.

Unusual Provisions:

13. Lessee agrees to furnish Lessor, at the request of Lessor, free of charge, one legible copy of any and all well or lease data, information or reports concerning any well, proposed well or any transaction affecting the leased premises when such data, information or reports become available, including, but not limited to, acoustical, electrical, gamma ray, neutron, spectral or any other type log, drilling reports, completion reports, potential tests, drill stem tests, plugging and abandoning reports, assignments, drilling opinions, division order opinions or any other title opinions, that affect title to said lands. All such data, information and reports shall, when requested and available, be mailed direct to Lessor at the address set out above.
14. At the end of the primary term, if Lessee is engaged in drilling operations or if Lessee has completed a well on the leased premises either as a dry hole or a commercial producer within one hundred eighty (180) days prior to the

expiration of the primary term, this lease shall remain in effect so long as operations are commenced and prosecuted with a cessation of no more than one hundred eighty (180) days between the completion of one well on said land as a well capable of producing oil and/or gas in paying quantities or a dry hole and commencement of drilling of the next well on said land. Completion shall be considered the date the well reaches total depth. Commencement shall be considered the date a rig capable of reaching total depths is placed on location.

As used herein, the term "proration unit" means a tract as nearly in the form of a square as possible allocated by the appropriate governmental regulatory body to a well, which tract is of such size as to entitle the well to a full allowable. Anything herein to the contrary notwithstanding, this lease will terminate at the end of the primary term or at the end of any continuous development program as herein provided as to the following:

- (a) Each proration unit on which a dry hole has been drilled, and each undrilled proration unit; and
- (b) All horizons below 100 feet below the deepest depth drilled on each proration unit.

15. At the end of the primary term or any extensions allowed hereunder and at the request of Lessor, Lessee agrees to prepare and deliver a release of all lands and horizons not earned under this lease.

Note: Lease No. 3 is on the same form and contains the same terms and provisions as Lease No. 2, except as follows:

Lease No. 3:

Date: March 30, 2000.

Recorded: Book 1013, page 689, Lea County Records.

Lessor: Winston Partners, Ltd.

Land Covered: Township 15 South, Range 34 East, N.M.P.M.
Section 26: N/2 SE/4.

Interest Covered: 1/4 interest.

Primary Term: Originally three years from date; however, by Amendment dated January 10, 2003, recorded in Book 1204, page 801, Lea County Records, the Lessor and Lessee amended the lease to be for a primary term of four years from date.

Depository: c/o Sargent Management, 4800 First Bank Place, Minneapolis, Minnesota 55402.

Unusual Provisions: Same as Lease No. 2.

Lease No. 4:

Date: April 1, 2000.

Recorded: Book 1021, page 718, Lea County Records.

Lessor: Bank of America, N.A., Trustee of the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust.

Lessee: David H. Arrington Oil & Gas, Inc.

Lands Covered: NE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: All interest. See Requirement No. 8 below.

Primary Term: Originally three years from date and so long thereafter as oil and gas or either of them is produced in paying quantities from said lands or lands with which said land is pooled hereunder and the royalties are paid as provided; however, by Amendment dated February 14, 2003, recorded in Book 1244, page 836, Lea County Records, the Lessor and Lessee amended the lease to be for a primary term of four years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas Well Royalties: On or before ninety days after the date on which (1) production from any well is shut-in or suspended or the lease is no longer maintained by compliance with other provisions hereof whichever is the later date and annually thereafter, Lessee may pay as royalty a sum of \$1.00 per acre or a minimum of \$50.00, whichever is greater, for each and every shut-in gas well. In no event shall shut-in well payments maintain the lease in force for a cumulative period exceeding two years.

Depository: All payments are to be made to the Lessor at P. O. Box 830308, Dallas, Texas 75283.

Delay Rentals: None provided. This is a paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units for oil not to exceed 40 acres and units for gas not to exceed 640 acres.

Lease Form: Bank of America special form.

Unusual Provisions: 3. (g) Lessee agrees that if it enters into any contract for sale of any products from this lease, which shall extend for 3 (three) years from the effective date of such sales contract and such contract does not have adequate provisions for redetermination of price at intervals of not less frequently than annually, then Lessee, its successors and assigns, shall in advance of executing any such sales contract provide Lessor with a full and complete copy of the proposed contract for the purpose of allowing Lessor to determine whether Lessee may sell Lessor's royalty share of products under Lessee's proposed sales contract. Lessor shall, within thirty (30) days of receiving such sales contract, notify Lessee as to whether Lessee may sell Lessor's royalty share of products under Lessee's proposed sales contract. In the event Lessor approves Lessee's proposed sales contract, Lessee shall pay the Lessor 1/4 (one-fourth) of all consideration received by or for the benefit of Lessee under said contract, without deducting any post-production costs or expenses, including without limitation, cost or expenses for dehydrating, transporting, compressing, treating, gathering, or otherwise rendering marketable or marketing the products. In the event Lessor does not approve Lessee's proposed sales contract, then Lessor's royalty shall nonetheless be calculated by

using the highest price paid or offered for products of comparable quality in the general area where produced and when run.

- (h) Lessor, at its sole option and discretion, may from time to time elect to take in kind and separately dispose of its royalty share of the gas for such periods of time as Lessor may designate in writing. In the event Lessor elects in writing to take and separately dispose of its royalty share of the gas, an appropriate gas balancing agreement shall be entered into between the parties. It is expressly agreed, however, that the inclusion of an option to permit Lessor to take its royalty gas in kind shall not modify or limit Lessee's duty to pay royalties as provided herein or to market the gas at such times, and from time to time, as Lessor does not choose to take and separately dispose of its royalty gas.
- (i) Within 120 days following the first sale of oil or gas produced from the leased premises, settlement shall be made by Lessee or by its agent for royalties due hereunder with respect to such oil or gas sold off the premises, and such royalties shall be paid monthly thereafter without the necessity of Lessor executing a division or transfer order. If said initial royalty payment is not so made under the terms hereof, this lease shall terminate as of 7 a.m. the first day of the month following the expiration of said 120-day period. After said initial royalty payments, with respect to oil or gas produced during any month, if royalty is not paid hereunder on or before the last day of the second succeeding month, this lease shall terminate at midnight of such last day.

THIS IS A PAID-UP OIL & GAS LEASE, ALL DELAY RENTALS REFERRED TO HEREIN ARE PAID IN FULL

- 9. No assignment of this lease, or interest therein, may be made without written approval of the Lessor, such approval shall not be unreasonably withheld.
- 12. Lessor herein executes and delivers this lease without warranty of title either express or implied.
- 14. Lessee shall advise Lessor in writing as to the location of each well drilled upon the premises, or on land pooled therewith, on or before seven (7) days after commencement of operations, and shall advise Lessor in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Lessor with all well drilling, completion and production data, reports, title opinions, logs and information when specifically requested by the Lessor. Lessee agrees that immediately following this instrument being recorded in the county records where the leased premises are located that Lessee will provide Lessor with a copy of this fully recorded instrument as it appears in said records.
- 15. If at the end of the primary term this lease is still in force, this lease shall expire as to all that part of said land (as hereinafter described) on which there is not a producing oil or gas well or on which Lessee is not then drilling or reworking a well. At the end of the primary term, Lessee

shall select and designate a producing unit around and including each producing oil or gas well or drilling or reworking well, the area of such unit to be limited to and conform with the minimum area provided for or established directly or indirectly in the applicable rules and regulations of the appropriate governing body of the state in which the subject acreage is located with reference to the spacing of wells or the size of producing units. As to each producing unit so designated, this lease shall continue in force so long as oil or gas is produced in paying quantities therefrom or so long as drilling or reworking operations are prosecuted thereon as provided in paragraph 6 and shall be limited in depth from the surface down to and including 50 feet below the base of the deepest producing formation; however, such lower depth limit shall not exceed 100 feet below the deepest producing perforation within the wellbore situated on that producing unit; and Lessee shall execute a release of this lease as to the balance of the land covered hereby as well as formations at depths below the respective producing units. In the absence of field rules promulgated by the appropriate governing body of the state in which such acreage is located, the term "producing unit" as used herein means the following number of acres, depending on the depth to which the well has been drilled, and whether the well is an oil or gas well: A. 40 acres for an oil well completed at any depth; B. (i) 80 acres for a gas well completed at a depth of less than 2,000 feet subsurface; (ii) 160 acres for a gas well completed at a depth of 2,000 feet subsurface to 6,000 feet subsurface; (iii) 320 acres for a gas well completed at a depth of 6,000 feet subsurface to 9,000 feet subsurface; (iv) 640 acres for a gas well completed at a depth greater than 9,000 feet subsurface. If a portion of Lessee's rights terminate as provided in this paragraph 15, then Lessee shall designate in writing the acreage it is allowed to retain around each oil well and each gas well and such written designation shall be filed for record in the county in which such acreage is located. Lessee shall be entitled to designate the number of acres above specified in a form of his choosing so long as no side is more than twice as long as any other side. The provisions of this paragraph 15 shall not have the effect of relieving the Lessee of its obligations to develop the lease with reasonable diligence after oil or gas is first discovered in paying quantities.

Lease No. 5:

Date:	June 21, 2000.
Recorded:	Book 1029, page 127, Lea County Records.
Lessor:	H-D Mineral Properties
Lessee:	David H. Arrington Oil & Gas, Inc.
Lands Covered:	W/2' SW/4 of Section 26, containing 80 acres, more or less.
Interest Covered:	1/2 interest.
Primary Term:	Originally three years from date; however, by Amendment dated January 28, 2003, recorded in Book 1204, page 799, Lea County Records, the Lessor and Lessee amended the lease to be for a primary term of four years from date.
Royalties:	1/4 on oil and gas.

Shut-In Gas
Well Royalties:

On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay as royalty an amount per year equal to \$5.00 per net mineral acre for the acreage within the proration unit allocated to such gas well. After the end of the primary term, payment of shut-in gas royalty will maintain the lease only as to the proration unit allocated to such shut-in well and only for any single period not to exceed two years, provided, however, Lessee shall be entitled to evoke the shut-in royalty provisions from time to time for periods not to exceed two years, provided that Lessee shall have actually marketed gas in paying quantities from said land or land pooled therewith in good faith after the end of each prior period for which Lessee is paid shut-in gas royalty under the lease.

Depository:

All payments are to be made to the Lessor at P. O. Box 3061, Midland, Texas.

Pooling Provision:

Lessee is authorized to pool the lands covered by the lease with other lands into units not exceeding 40 acres for oil or 320 acres for gas plus a tolerance of 10% each.

Lease Form:

Producers 88H/98 Paid-Up with/Pooling.

Unusual Provisions:

2. The review period for purposes of determining whether production is in paying quantities shall be the 365 consecutive-day period chosen by Lessor.
3. (e) Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for, and the value thereof shall not be reduced, directly or indirectly, so as to offset all or any part of the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee shall directly reimburse Lessor for any charges, expenses or price differentials occasioned by allowance for such costs and withheld by any purchaser, gatherer, processor, pipeline company, Lessee or others.
- (f) Notwithstanding anything contained in paragraph 3 or elsewhere in this lease to the contrary, Lessor at any time and from time to time on sixty (60) days prior notice in writing to Lessee may require that payment of all or any part of the royalties accrued to Lessor under this lease on oil, gas or any product be made in kind effective as of the first day of the calendar month next following the expiration of said sixty (60) day period or if payment of any such royalties are then being made to Lessor in kind, require that such in kind payment cease and that payment of such royalties thereafter be made as otherwise provided in this paragraph 3. In the event Lessor elects to take in kind, Lessee shall make all its leasehold and pipeline facilities available for Lessor's use without charge or deduction therefor.
- (h) Within ninety (90) days following the date of first sale of oil and/or gas produced from said land, all royalties from such production due Lessor by virtue of this lease shall be paid to Lessor. Thereafter, royalty shall be paid to Lessor on or before the last day of the second month succeeding the month of production. In the event royalty is not so timely paid, Lessee agrees that it will pay to Lessor interest on

the amount so due at the NationsBank of Texas, N.A., prime rate per annum for the royalties so owing, said interest to commence on the day following the date such royalty is owing by the terms hereof.

7. After the discovery of oil and/or gas on said land, Lessee shall further develop said land as a reasonably prudent operator would do in the same or similar circumstances. Lessee shall adequately protect the oil and gas under said land from drainage from adjacent lands. The term "adjacent lands" refers to any offsetting proration unit, including any proration unit with a common corner to said land. In the event a well or wells producing oil and/or gas in paying quantities should be brought in on adjacent lands and draining said land, Lessee agrees, within one hundred twenty (120) days after such offset well commences actual production, to commence drilling such offset well or wells as are necessary to prevent drainage from said land. In lieu of drilling of such offset to any such oil or gas well, Lessee shall have the option of either releasing this lease as to the stratigraphic equivalent of the zone or horizon which corresponds with that being produced in the offset well and within a tract of land in as near the form of a square as possible and constituting what would be the proration unit established in conformity with the field rules or spacing laws prescribed or permitted with respect to such offset well, with Lessee retaining all other rights within such tract, or pay Lessor monthly, as compensatory royalty, a sum equal to the payments which would be payable under this lease on the production from such offset well had same been produced from said land and, as long as Lessee may elect to pay such royalty in lieu of drilling an offset well, Lessee shall have satisfied its offset obligation to Lessor as to such well.
11. Notwithstanding anything contained herein to the contrary, upon the expiration of six (6) months from the end of the primary term hereof, this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil and/or gas in paying quantities together with the proration unit allocated thereto (the size of said proration unit being hereby defined as the number of acres prescribed by the proper governmental authority, as the minimum number of acres required for the production of the maximum allowable from a well in the particular field and from the particular sand or formation involved) as of the date of such termination from the surface down to the depth of 100 feet below the deepest producing depth in each such well capable of producing oil and/or gas in paying quantities. Thereafter, Lessee shall promptly execute and deliver to Lessor a recordable release of this lease as to all lands and depths as to which the lease has so terminated. If after thirty (30) days written notice to Lessee by Lessor requesting such release, Lessee fails to deliver such release to Lessor, then this lease shall automatically terminate as to all of said land. Upon such partial termination, each such producing proration unit shall become a separate lease subject to all of the terms and provisions hereof, so that production and/or operations from one such producing proration unit shall not constitute production and/or operations on any other such proration unit. It is agreed that as long as this lease remains in force as to any part of said land, any portion of the land as to which this lease expires may, nevertheless, be used by Lessee, its successors and assigns, to the extent reasonably necessary for ingress and

egress for gathering, transporting, treating, processing, and storing oil and/or gas produced from the land as to which this lease remains in force.

13. Lessee agrees to furnish to Lessor, upon written request and without cost, daily drilling reports, copies of all logs run, surveys made, and any other well information pertaining to wells drilled on said land, or on land pooled therewith, copies of reports and forms filed by Lessee with the state regulatory agencies in connection with such wells, and copies of all title opinions obtained by Lessee covering said land. Lessor agrees to hold all such information confidential so long as this lease is in force as to any part of said land, or until such earlier time as such information is otherwise generally available to the public.

Note: Lease No. 6 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 6:

Date: March 28, 2000.

Recorded: Book 1013, page 727, Lea County Records.

Lessor: Bobby V. Bell and wife, Christine Jane Bell.

Land Covered: W/2 SW/4 of Section 26,
containing 80 acres, more or less.

Interest Covered: 1/2 interest.

Primary Term: Originally three years from date; however, by Amendment dated December 3, 2002, recorded in Book 1193, page 143, Lea County Records, the Lessor and Lessee amended the lease to be for a primary term of four years from date.

Royalties: 3/16 on oil and gas.

Depository: All payments are to be made to the Lessor at 2525 Ridgeview Road, Camden, Arkansas 71701.

Unusual Provisions: None.

Note: Lease No. 7 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 7:

Date: February 1, 2002.

Recorded: Book 1142, page 787, Lea County Records.

Lessor: Don C. Dennis, individually and as Trustee of the J. M. Dennis Trust.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/12 interest.

Primary Term: Three years from date.

Royalties: 1/4 on oil and gas.

Depository:

All payments are to be made to the Lessor at P. O. Box 1738, Lubbock, Texas 79408.

Unusual Provisions:

12. Notwithstanding anything contained hereinabove to the contrary, it is understood and agreed that at the expiration of the primary term, this lease shall terminate as to all lands covered hereby not included in or otherwise allocated to a "well unit" as hereinafter defined, unless Lessee is producing oil, gas or other hydrocarbons from any well on the leased premises, or lands pooled therewith, or is drilling upon said lands across the expiration of the primary term as provided for in the body of this lease, and does not allow more than 180 days to elapse between the completion or abandonment of one well on such land and the commencement of another well thereon until the leased premises have been "fully developed", as hereafter defined. Operations for drilling of the first such development well must be commenced (a) within 180 days after the expiration of the primary term if production is established under this lease prior to the expiration of the primary term, or (b) within 180 days of completion of the well which is being drilled, tested or completed across the expiration of the primary term. Should Lessee fail to timely commence a well in accordance with aforesaid 180 days continuous drilling or development prior to the point in time the leased premises have been fully developed, then this lease shall terminate as to all lands not included in or otherwise allocated to a well unit. For the purpose thereof, the term "well unit" shall mean the proration or spacing unit created for a well capable of producing oil and/or gas or other hydrocarbons in paying quantities as in accordance with the applicable rules and regulations of the New Mexico Oil Conservation Division or other government authority having jurisdiction, and the term "fully developed" shall mean the point in time when the entirety of the leased premises has been included in a well unit or units as defined. The date of completion of a well shall be the date of a potential test if a producing well and the date of plugging if a dry hole or abandoned well. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed and as to lands so fully developed shall terminate as to all depths lying more than 100' below the base of the deepest zone or stratigraphic interval producing in a well Lessee has theretofore drilled thereon, which zone or stratigraphic interval is to be identified from the electric log or logs of said well.
13. Lessor's royalty shall never bear or be chargeable with, either directly or indirectly, any part of the costs or expenses of producing, gathering, storing, separation, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use.
14. Payment of shut-in gas well royalties will not be permitted to maintain this lease in force for any period longer than two (2) consecutive years without the written consent of Lessor.

Note: Lease No. 8 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 8:

Date:

February 1, 2002.

Recorded:

Book 1140, page 706, Lea County Records.

Lessor: Jessie A. Dennis, sole heir of Barron Dennis.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: Apparently 1/48 interest. See Requirement No. 13 below.

Primary Term: Three years from date.

Royalties: 1/4 on oil and gas.

Depository: All payments are to be made to the Lessor at 231 Middlebury, San Antonio, Texas 78217.

Unusual Provisions: Same as Lease No. 7.

Note: Lease No. 9 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 9:

Date: February 1, 2002.

Recorded: Book 1139, page 683, Lea County Records.

Lessor: JoAnn DeNitto.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/48 interest.

Primary Term: Three years from date.

Royalties: 1/4 of oil and gas.

Depository: All payments are to be made to the Lessor at 2036 Mustang Drive, Levelland, Texas 79336.

Unusual Provisions: Same as Lease No. 7.

Lease No. 10:

Date: May 9, 2003.

Recorded: Book 1232, page 800, Lea County Records.

Lessor: Angela McAlpin, for life, by Roger Davidson, her attorney-in-fact.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: Apparently a 1/16 interest. See Requirement No. 6 below.

Primary Term: Three years from date.

Royalties: 1/5 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to

\$1.00 per net acre of Lessor's gas acreage then held under the lease.

Depository: All payments are to be made to the Lessor at 665 Lincoln Court, Grand Junction, Colorado 81503.

Delay Rentals: None provided. This is a paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, plus a tolerance of 10%.

Lease Form: Producers 88 - Producers Revised 1981 New Mexico Form 342P, Paid-Up.

Unusual Provisions: None.

Lease No. 11:

Date: January 16, 2004.

Recorded: Book 1285, page 716, Lea County Records.

Lessor: Nancy Gallaway, Executrix of the Estate of Lora B. McAlpin, deceased.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/16 interest.

Primary Term: Six months from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease.

Depository: None provided. All payments are to be made to the Lessor at 20928 FM 2154, College Station, Texas 77845.

Delay Rentals: None provided. This is a paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, plus a tolerance of 10%.

Lease Form: Producers 88 - Producers Revised 1981 New Mexico Form 342P, Paid-Up.

Unusual Provisions: None.

Lease No. 12:

Date: January 22, 2003, effective March 17, 2003.

Recorded: Book 1205, page 432, Lea County Records.

Lessor: Sandra Lee Ponder Joy.

Lessee: David Petroleum Corp.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/8 interest.

Primary Term: Three years from March 17, 2003.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before 180 days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease.

Depository: None provided. All payments are to be made to the Lessor at 17421 E. State Highway 22, Cranfills Gap, Texas 76637.

Delay Rentals: None provided. This is a paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, plus a tolerance of 10%.

Lease Form: Producers 88 - Paid-Up.

Unusual Provisions: None.

Lease No. 13:

Date: March 16, 2003.

Recorded: Book 1213, page 653, Lea County Records.

Lessor: Western Commerce Bank, Trustee of the Frances J. Freeman Revocable Trust.

Lessee: David Petroleum Corp.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/8 interest.

Primary Term: Three years from date.

Royalties: 7/32 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease.

Depository: All payments are to be made to the Lessor at P. O. Box 1627, Lovington, New Mexico 88260.

Delay Rentals: None provided. This is paid-up lease.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, plus a tolerance of 10%.

Lease Form: Producers 88 - Producers Revised 1994 New Mexico Form 342, Paid-Up.

Unusual Provisions:

1. Although Lessee has the right hereunder to use the surface estate of the above described lands, Lessee shall nevertheless pay to the surface owner reasonable sums for damages to the surface estate, including reasonable sums for damages to improvements and for the damages to livestock and grazing lands. Surface damage payments to the surface owner shall be at least the customary or going rate.
2. Lessee's right to continue this lease beyond the primary term by payment of "shut-in gas royalty" shall be limited to a maximum period of two years from the expiration of the primary term of this lease.
3. At the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on said land and thereafter continue such program until all the New Mexico Oil Conservation Commission or other governing state or federal regulatory authority proration units have been drilled, allowing not more than 180 days to elapse between the completion or abandonment of one well and the commencement operations for the drilling of another well. Should Lessee fail to commence this program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except the New Mexico Oil Conservation Commission or other governing state or federal regulatory agency proration unit for each producing well or shut-in well. There shall be no liability on the continuous drilling program, save and except for the termination of this lease as to non-productive proration units as above provided. All rights below 100' below the deepest producing formation will revert to the Lessor at the expiration of the primary term or termination of the continuous development program herein provided, whichever is later.
4. Notwithstanding anything to the contrary elsewhere in this lease, this lease is made by Lessor without warranty of any kind, express or implied.
5. Lessee agrees that all royalties accruing to Lessor under this lease shall be without deduction for cost of marketing, producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products hereunder ready for sale.
6. No division order shall be required prior to any payment of Lessor hereunder, but Lessee may require an agreement of division from Lessor containing the following only: Lessor's name, address, [REDACTED] and Lessor's interest. Lessee agrees that such an agreement of division shall constitute a customary and reasonable division order.

Lease No. 14:

Date: June 5, 2000.

Recorded: Book 1029, page 292, Lea County Records.

Lessor: Wells Fargo Bank, New Mexico, N.A., successor by merger to Norwest Bank, New Mexico, N.A., Trustee for the Fredia Irene Madding Wright Trust.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/4 interest.

Primary Term: Originally three years from date; however, by Amendments dated May 28, 2003, recorded in Book 1232, page 794, Lea County Records, and May 21, 2003, recorded in Book 1232, page 797, Lea County Records, Barbara Wright Seward and Bert Ronald Wright, successors to the lessor under the lease, amended the lease to be for a primary term of six years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas Well Royalties: On or before ninety days after the date on which (1) the gas well is shut-in or (2) this lease is no longer maintained by other provisions hereof, whichever is the later date, Lessee may pay as royalty a sum of \$25.00 for each acre ascribed to the gas well pursuant to paragraph 7 of the lease, provided, however, in no event shall the amount of such royalty be less than \$50.00 after applying the proportionate reduction provision contained in the lease. In no event shall shut-in well payments maintain the lease in force for a cumulative period exceeding two years.

Depository: All payments are to be made to the Lessor at P. O. Box 5825, Denver, Colorado 80217.

Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units for oil not to exceed 40 acres each and for gas 640 acres each.

Lease Form: A special typewritten form (2-22-2000/Cheyenne).

Unusual Provisions: 3. (f) Except as may be permitted for proceeds received by Lessee under Subparagraphs (c) and (d) above, all royalties payable to Lessor shall be free, clear and without deduction for any costs of marketing, gathering, transporting, separating, processing, dehydrating, compressing or other costs in making the oil and gas available and marketable at the place of sale or use; provided, however, Lessee shall have free use of oil and gas for lease operations conducted on the leased premises under the terms of this lease (but in no event shall such free use of oil and gas extend to fuel gas used in plant operations).

(h) Lessee agrees that it will not enter into any contract for the sale of oil or gas production from this lease which shall extend more than three (3) years from the effective date of such contract, unless such contract has adequate provisions for the redetermination of price at intervals not less frequently than one year. Upon written request by Lessor, Lessee shall advise Lessor of the price and other pertinent terms under which production from the leased premises is being sold. In the event Lessee enters into a gas purchase contract

containing what is commonly referred to as a "take or pay" provision and the purchaser under such gas purchase contract makes any payment or payments of any nature to Lessee for failure to take delivery of a required minimum volume of gas, then Lessor shall be entitled to a fractional share of all such payment or payments so made to Lessee, such fractional share to be the same as provided in Subparagraph (b) above.

- (l) Lessee is unconditionally obligated to Lessor to make the payment of royalties hereunder, irrespective of the failure or bankruptcy of any third party oil or gas purchaser and without the necessity of Lessor executing a division order or transfer order. Further, Lessee shall bear full responsibility for payment of all royalties hereunder, irrespective of any split-stream marketing of production. Accounting and payments to Lessor of royalties from the production of oil and gas from any well shall commence and thereafter be paid in full compliance with the applicable provisions of the laws of the State of New Mexico and failure to so comply shall entitle Lessor to the remedies therein provided. If Lessee at any time fails to make royalty payments to Lessor in compliance with the applicable provisions of the laws of the State of New Mexico, Lessor may, at Lessor's option, cancel this lease by giving Lessee thirty (30) days advance written notice of such cancellation. Lessee may avoid such cancellation by paying Lessor all sums (including interest) then owed by Lessee prior to the expiration of said thirty (30) day period. Acceptance by Lessor of royalties which are past due shall not act as a waiver or estoppel of Lessor's right to receive or recover any and all interest due thereon under the provisions hereof, unless a written acknowledgment executed by Lessor expressly so provides. Lessee shall pay all costs of litigation, including reasonable attorney's fees, expert witness and consultation fees, incurred by Lessor in connection with any lawsuit in which Lessor is successful in recovering any royalties or interest attributable to Lessee's failure to timely pay royalties as required herein.
- (j) If production is obtained from the leased premises, the minimum royalty payable hereunder after the primary term shall be \$25.00 per acre per annum for each acre ascribed to a well pursuant to Paragraph 7 on January 1st of each year in question. The only credits applicable to this annual minimum royalty are royalties actually paid during the year in question. Lessee shall pay to Lessor the actual royalties provided for herein as they accrue. Within thirty (30) days after the end of each year, upon written request from Lessor, Lessee shall furnish Lessor with a detailed statement of the actual production and royalties paid for the year in question and any applicable credits. If such statement shows that the minimum royalty provided for herein has not been paid, Lessee shall remit the difference to Lessor with the statement. Should Lessee fail to furnish such statement or fail to pay the minimum payment required within thirty (30) days after written notice by Lessor that such statement has not been received, then Lessee shall have an additional thirty (30) days

to cure such default, failing which, this lease shall terminate. Each year shall stand on its own, and Lessee shall not apply any excess paid during one year to a deficiency existing in any other year. The annual periods provided for herein shall begin on January 1st of the year immediately following the year in which production is first obtained from the leased premises. The provision for minimum royalty shall in no way alter, limit, lessen, restrict, change or impair the obligation of Lessee to develop the leased premises reasonably and with due diligence.

6. Notwithstanding anything herein to the contrary, in order to maintain this lease in force and effect after the expiration of the primary term as to the portion of the leased premises not then ascribed to a producing well or shut-in well pursuant to the provisions of this Paragraph, Lessee shall be required to continuously drill wells on said lands (or lands pooled therewith) after the expiration of the primary term so that there is no cessation of more than 180 consecutive days between the completion of one well and the commencement of a subsequent well, thereby providing a continuous drilling schedule after the expiration of the primary term. Commencement of the first well in such continuous drilling program shall occur on (i) the expiration of the primary term or (ii) (180) days after the completion of the last well drilled on said lands within the primary term, whichever is later. If at any time after the expiration of the primary term Lessee fails to maintain said continuous drilling schedule, then this lease shall automatically terminate as to all of the leased premises, SAVE AND EXCEPT the interval from the surface down to depth to which lessee sets production casing in said well located on said unit:
- (a) each well producing oil from said lands in paying quantities, together with minimum acreage allowed by the governmental authority having jurisdiction, and
 - (b) each well producing gas from said lands in paying quantities, or capable of producing gas in paying quantities with all shut-in royalty payments then due having been paid thereon, together with the minimum acreage allowed by the governmental authority having jurisdiction,
 - (c) the acreage around oil wells and gas wells to be a near the form of a square or rectangle as is practicable (but if a rectangle, the longest sides shall be no more than twice the length of the shortest sides) with the well located at a legal spacing distance within its boundaries. UPON THE TERMINATION OF THIS LEASE EXCEPT AS TO EACH OIL WELL AND EACH GAS WELL AND THE NUMBER OF ACRES HEREINABOVE SPECIFIED AROUND EACH SUCH WELL, EACH SEPARATE TRACT AROUND AN OIL WELL AND EACH SEPARATE TRACT AROUND A GAS WELL SHALL BE TREATED AS A SEPARATE LEASE THAT IS SUBJECT TO THE PROVISIONS HEREOF. In such event, the continuation of this lease as to each such separate lease shall be determined by the application of the provisions hereof to each particular separate lease. Within sixty (60) days after the termination of this lease except as to each oil well and each gas well and the number of acres

hereinabove specified around each such well, Lessee shall designate and file of record a plat and legal description of the particular acreage ascribed to each well, furnishing Lessor a copy of such instrument.

9. No assignment of this lease or interest herein may be made without written approval of the Lessor which consent shall not be unreasonably withheld.
14. Lessee shall advise Lessor in writing as to the location of each well drilled upon the premises or on land pooled therewith, on or before seven (7) days after commencement of operations and shall advise Lessor in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Lessor with all well drilling, completion and production data, reports, logs and information when specifically requested by the Lessor.
15. If at the end of the primary term this lease is still in force this lease shall expire as to all that part of said land (as hereinafter described) on which there is not a producing oil or gas well or on which Lessee is not then drilling or reworking a well. At the end of the primary term Lessee shall select and designate a producing unit around and include each producing oil or gas well or drilling or reworking well, the area of such unit to be limited to and conform with the minimum area provided or established directly or indirectly in the applicable rules and regulations of the appropriate governing body of the state in which the subject acreage is located with reference to the spacing of wells or the size of producing units. As to each producing unit so designated, this lease shall continue in force so long as oil or gas is produced in paying quantities therefrom or so long as drilling or reworking operations are prosecuted thereon as provided in paragraph 6 and shall be limited in depth from the surface down to and including fifty (50) feet below the deepest depth drilled and Lessee shall execute a release of this lease as to the balance of the land covered hereby as well as formations at depths below the respective producing units in the absence of field rules promulgated by the appropriate governing body of the state in which such acreage is located. The term producing unit as used herein means the following number of acres depending on the depth to which the well has been drilled and whether the well is an oil or gas well: A. 40 acres for an oil well completed at any depth plus a tolerance of 10% thereof. B. (I) 80 acres for a gas well completed at a depth of less than 2000 feet subsurface plus a tolerance of 10% thereof. (II) 160 acres for a gas well completed at a depth of 2001 feet subsurface to 6000 feet subsurface plus a tolerance of 10% thereof. (III) 320 acres for a gas well completed at a depth of 6001 feet subsurface to 9000 feet subsurface plus a tolerance of 10% thereof. (IV) 640 acres for a gas well completed at a depth greater than 9001 feet subsurface plus a tolerance of 10% thereof. If a portion of Lessee's rights terminate as provided in this paragraph 15 then Lessee shall designate in writing the acreage it is allowed to retain around each oil well and each gas well and such written designation shall be filed for record in the county in which such acreage is located. The provisions of this paragraph 15 shall not have the effect of relieving Lessee of its obligations to develop the lease with reasonable diligence after oil or gas is first discovered in paying quantities.

19. Wells Fargo Bank New Mexico, N.A. which executes this Lease in its fiduciary capacity as Trustee and not in its corporate capacity makes no warranties or representations of title either express or implied, and any liability asserted against the Trustee due to its execution of this Lease shall be satisfied solely from assets held by them as Trustee of the Fredia Irene Madding Wright Trust at the time of such assertion.

Note: Lease No. 15 is on the same form and contains the same terms and provisions as Lease No. 10, except as follows:

Lease No. 15:

Date: January 12, 2004.

Recorded: Book 1285, page 714, Lea County Records.

Lessor: Charlise E. Savage and husband, Sidney Savage.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: SE/4 SW/4 of Section 26.

Interest Covered: Apparently 1/8 interest. See Requirement No. 4 below.

Primary Term: Six months from date.

Royalties: 1/4 on oil and gas.

Depository: All payments are to be made to the Lessor at P. O. Box 7, Deming, New Mexico 88031.

Unusual Provisions: None.

Note: Lease No. 16 is on the same form and contains the same terms and provisions as Lease No. 10, except as follows:

Lease No. 16:

Date: January 12, 2004.

Recorded: Book 1284, page 866, Lea County Records.

Lessor: G. G. Gore and wife, Carol J. Gore.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: Apparently 1/8 interest. See Requirement No. 4 below.

Primary Term: Six months from date.

Royalties: 1/4 on oil and gas.

Depository: All payments are to be made to the Lessor at 2020 S. Columbus Road, Deming, New Mexico 88030.

Unusual Provisions: None.

ASSIGNMENTS

1. By Assignment dated October 1, 2001, recorded in Book 1111, page 205, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned a 5% overriding royalty interest in the predecessor to Lease No. 10 to Dale Douglas 1%, Alpine Petroleum, Inc. 1%, John R. McRae 1% and The Monument Abo Company 2%. The overriding royalty interest is subject to proportionate reduction. The interest assigned applies to extensions and renewals of the lease.
2. By Assignment dated October 1, 2001, recorded in Book 1111, page 209, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned a 6.25% overriding royalty interest in Lease No. 6 to Dale Douglas 1%, Alpine Petroleum, Inc. 1%, John R. McRae 1% and The Monument Abo Company 3.25%. The overriding royalty interest is subject to proportionate reduction.
3. By Assignment dated October 2, 2001, recorded in Book 1120, page 835, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned to Devon SFS Operating, Inc. 25% of the assignor's interest in Lease Nos. 1-6, 10, 11, 14, 15 and 16. In this assignment the assignor reserved an overriding royalty interest equal to the difference between existing burdens and 25% of production subject to proportionate reduction. This assignment is subject to that certain Geophysical Exploration Agreement, West Salty Dog Project, dated December 15, 2000 between the assignor and assignee.
4. By Assignment dated effective May 1, 2002, recorded in Book 1151, page 375, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned to Chesapeake Exploration Limited Partnership a 25% leasehold interest in Lease Nos. 1-11 and 14-16. In this assignment the assignor reserved an overriding royalty interest equal to the difference between 25% of production and existing lease burdens, subject to proportionate reduction. This assignment is subject to that certain Participation Agreement, West Salty Dog Prospect, dated effective May 1, 2002 between David H. Arrington Oil & Gas, Inc. and Chesapeake Exploration Limited Partnership and that certain Operating Agreement attached as Exhibit "F" to the Geophysical Exploration Agreement dated December 15, 2000 between assignor and Devon SFS Operating, Inc.
5. By Certificate dated October 31, 2002, recorded in Book 1188, page 306, Lea County Records, Devon SFS Operating, Inc. merged with and into Devon Energy Production Company, L.P.
6. By Assignment dated December 1, 2003, recorded in Book 1295, page 328, Lea County Records, Devon Energy Production Company, L.P. assigned to David H. Arrington Oil & Gas, Inc. all of its interest in Lease Nos. 11, 15 and 16. This assignment is subject to the Geophysical Exploration Agreement, West Salty Dog Prospect, dated December 15, 2000.
7. By Assignment dated December 1, 2003, recorded in Book 1271, page 674, Lea County Records, David Petroleum Corp. assigned a 77.40% interest in Lease Nos. 12 and 13 to the following parties in the percentages shown:

Yates Petroleum Corporation	32.6900%
Yates Drilling Company	4.6700%
Abo Petroleum Corporation	4.6700%
Myco Industries, Inc.	4.6700%
McMillan Ventures, LLC	10.6600%
McMillan Producing Company, Inc.	8.4730%
Permian Exploration Corporation	9.5670%
Michael A. McMillan and Teresa L. McMillan	1.0000%
Edward N. David	.5000%
Keith E. McKamey	.2500%
William B. Owen	.2500%

CHESAPEAKE PARTICIPATION AGREEMENT

The materials examined include a Participation Agreement, West Salty Dog Prospect, dated May 1, 2002 between David H. Arrington Oil & Gas, Inc. and Chesapeake Exploration Limited Partnership. The contract area for the participation agreement is all of Sections 23, 24, 25, 26, 35 and 36 of Township 15 South, Range 34 East, NMPM, Lea County, New Mexico. The test well to be drilled under the participation agreement is the Yates Petroleum Corporation, Maxwell 26 #1 Well, located in the N/2 of Section 26, which well was to be drilled to a depth sufficient to penetrate and test the Mississippian formation at a depth of approximately 14,000'. The test well was apparently drilled pursuant to the terms of the operating agreement attached as Exhibit "G" to that certain Exploration Agreement dated March 10, 1995 by and between Santa Fe Energy Resources, Inc. and David Petroleum Corp., et al. As to any well drilled on the S/2 of Section 26, such well shall be subject to the terms of that certain Geophysical

Exploration Agreement dated December 15, 2000 by and between David H. Arrington Oil & Gas, Inc. and Devon SFS Operating, Inc. Upon execution of the agreement, Arrington agreed to assign to Devon a 25% leasehold interest in the S/2 of Section 26 derived from the leases described in Exhibit "A" of Exhibit "C-2" to the agreement. In the assignment, the seller would retain an overriding royalty interest equal to the difference, if any, between 25% of production and total leasehold burdens, subject to proportionate reduction. The agreement also creates an area of mutual interest.

MARSHALL & WINSTON PARTICIPATION AGREEMENT

The materials examined include a Participation Agreement dated November 15, 2003 between David H. Arrington Oil & Gas, Inc. and Marshall & Winston, Inc. This agreement covers the S/2 of Section 26 and provides for Marshall & Winston to purchase 26.666% of 320 acres from Arrington. Upon the payment by Marshall & Winston of the consideration recited in the agreement, Arrington agreed to make an assignment to it of an undivided 20% interest in the leases which is the after payout interest, subject only to a proportionate share of the lessor's royalty burdening the leases and a retained overriding royalty interest equal to the difference between 25% and the lessor's royalty provided in such leases. Arrington agreed to deliver to Marshall & Winston a net revenue interest of 75%, proportionately reduced to the 20% working interest in the leases assigned. The agreement provides that Marshall & Winston shall bear 26.666% of 8/8 of the cost, risk and expense associated with drilling, completing and operating of the test well until the well has reached payout. Should the test well reach payout, Arrington shall have a one time election to either back-in for 6.666% of 8/8 of buyer's 26.666% before payout interest in the test well at no cost to Arrington or not to back-in and retain its before payout interest in the test well. The interest of Marshall & Winston in all subsequent wells drilled pursuant to the agreement shall be 20% of 8/8. The agreement provides for a test well to be drilled to a depth sufficient to test the Morrow formation at a depth of approximately 13,600' with the drilling of the well to be governed by the operating agreement attached as Exhibit "D" to the agreement. The agreement also creates an area of mutual interest effective December 16, 2003 which shall continue in effect until 12:01 a.m. May 2, 2004. The area of mutual interest covers Sections 23, 26 and 35 of Township 15 South, Range 34 East, NMPM, Lea County, New Mexico as to all depths.

QUANAH PARTICIPATION AGREEMENT

The materials examined include a copy of a Participation Agreement dated January 26, 2004 between David H. Arrington Oil & Gas, Inc. and Quanah Exploration Limited Partnership. This agreement, which is effective November 20, 2003, provides for Quanah to purchase from Arrington 8.33% of 320 acres leasehold interest and upon payment by Quanah of the consideration recited in the agreement, Arrington would make an assignment to Quanah of 6.25% of 8/8 working interest in the leases, subject to a proportionate share of the lessor's royalty and a retained overriding royalty interest equal to the difference between 25% and the lessor's royalty provided for in the leases. Arrington agreed to deliver a net revenue of 75% proportionately reduced to the 6.25% working interest in the leases. Quanah agreed to participate in and pay for an undivided 8.333% of 8/8 of the cost, risk and expense of drilling, completing and operating the test well until said well has reached payout. Should the test well reach payout, Arrington shall have a one time election to either back-in for 2.083% of 8/8 of buyer's interest at no cost to Arrington, or not to back-in and retain its interest in the test well. The test well is to be drilled to a depth sufficient to test the Morrow formation at a depth of approximately 13,600' and is to be drilled pursuant to the operating agreement attached as Exhibit "D" to the agreement. The agreement creates an area of mutual interest effective December 16, 2003 continuing until 12:01 a.m. May 2, 2004 covering lands described in Exhibit "C" to the agreement. The copy of the agreement we have examined does not include Exhibit "C".

OPERATING AGREEMENT

The materials examined include an unexecuted copy of an Operating Agreement dated November 20, 2003, prepared on AAPL Form 610-1982 which designates David H. Arrington Oil & Gas, Inc. as operator. The contract area is captioned land and the parties and their respective interests are as follows:

<u>Parties</u>	<u>Before Payout Interest</u>	<u>After Payout Interest</u>
David H. Arrington Oil & Gas, Inc.	21.242360%	To be determined *
Chesapeake Exploration Limited Partnership	32.291666%	32.291666%
David Petroleum Corp.	.706250%	.706250%
Yates Petroleum Corp	1.021563%	1.021563%
Yates Drilling Company	.145937%	.145938%

ABO Petroleum Corporation	.145937%	.145938%
Myco Industries, Inc.	.145937%	.145938%
McMillan Ventures, LLC	.333125%	.333125%
McMillan Production Company, Inc.	.264781%	.264781%
Permian Exploration Corporation	.298969%	.298969%
Michael A. and Teresa L. McMillan	.031250%	.031250%
Edward N. David	.015625%	.015625%
Keith E. McKamey	.007813%	.007813%
William B. Owen	.007813%	.007813%
Marshall & Winston, Inc.	26.934817%	To be determined *
Steve Holifield, Sr.	8.072916%	8.072916%
Quanah Exploration Limited Partnership	8.333000%	To be determined *
	100.000000%	To be determined
* At payout, David H. Arrington Oil & Gas, Inc. has a one time election to back-in for 6.666% of 8/8 of Marshall & Winston, Inc.'s 26.934817% of 8/8 interest and 2.083% of 8/8 of Quanah Exploration Limited Partnership's 8.333% of 8/8 interest in the Green Eyed Squealy Worm 26-1 Well.		

We note that the interests of David H. Arrington Oil & Gas, Inc., Chesapeake Exploration Limited Partnership, Marshall & Winston, Inc. and Steve Holifield, Sr. do not agree with the interests we have credited above. This agreement provides for the drilling of a test well at a location of 1980' FSL and 1120' FEL of Section 26 to be drilled to a depth sufficient to test the Mississippian formation at approximately 13,600'. The agreement does not include the date that the well is to be commenced. The agreement provides for a 300% non-consent penalty and the preferential right to purchase provisions has been deleted. The agreement also provides that the parties shall own all production of oil and gas from the contract area subject to the payment of royalties to the extent of 25%. The agreement is to continue in force so long as any such well or wells produce or are capable of production and for an additional period of 90 days from cessation of all production.

Article XV contains additional unusual provisions with which we know you are aware, but we will point the following provisions which are of particular importance:

Article XV.J - Operations by David H. Arrington Oil & Gas, Inc.

The parties hereto acknowledge that David H. Arrington Oil & Gas, Inc., a contract operator for David H. Arrington, may or may not own any interest in the Contract Area. In the event that David H. Arrington, or any of his affiliates, single subsidiary, parent or successor corporation/entity no longer owns an interest in the Contract Area, David H. Arrington Oil & Gas, Inc. will be deemed to have resigned as Operator and a successor operator shall be selected pursuant to Article V.B.2 hereof.

Article XV.K - Required Well

If any well proposed to be drilled, reworked, sidetracked, deepened, recompleted or plugged back is necessary (i) to maintain a lease (or a portion thereof) covered by this Operating Agreement in force or (ii) pursuant to an agreement to earn a lease(s) (or portion thereof) which would otherwise expire unless such operation is conducted, then in lieu of Article VI.B.2., each Non-Consent Party shall assign to the Consenting Parties all of such Non-Consenting Party's interest in and to the lease(s) or a portion thereof which would be lost or not earned if such well were not drilled. Said assignment shall be promptly due upon commencement of said operation by the Consenting Parties and if the assignment is in favor of more than one party, the assigned interest shall be shared by the Consenting Parties in the proportions that the interest that each bears to the interest of all Consenting Parties unless otherwise agreed to in writing. Except for burdens allowed under Article III.B, or referenced to in Exhibit "A", such assignment shall be free and clear of all overriding royalty

interests, production payments, mortgage, liens or other encumbrances placed thereon by or resulting from the Non-Consenting Party's ownership but shall otherwise be without warranty of title, express or implied. For purposes of defining necessary operations to maintain a lease or agreement in force which would otherwise expire, such operations shall be deemed necessary if proposed on or before 120 days prior to the date on which any such lease or agreement (or other portions thereof) would expire in the absence of drilling of such well and only as such well is designated as a "necessary well" in the proposal to drill same.

A Memorandum of this Operating Agreement filed April 12, 2004 is recorded in Book 1295, page 309, Lea County Records.

POOLING DESIGNATION

The materials examined include a Designation of Pooled Unit dated March 3, 2003 but effective January 27, 2003, with counterparts being recorded in Book 1211, pages 838, 843 and 848, Lea County Records, executed by Devon Energy Production Company, L.P., David H. Arrington Oil & Gas, Inc. and Chesapeake Exploration Limited Partnership, which designates the S/2 of Section 26 as a pooled unit for production of oil and gas from formation underlying captioned land. By Amendment of Designation of Pooled Unit dated November 19, 2003, but effective November 1, 2003, recorded in Book 1277, page 151, Lea County Records, David H. Arrington Oil & Gas, Inc., Chesapeake Exploration Limited Partnership, David Petroleum Corp. and Devon Energy Production Company, L.P. amended the original designation of pooled unit by replacing the Exhibit "A" thereto with a new Exhibit "A" describing Lease Nos. 1-16 and the amendments thereto except for Lease Nos. 11, 15 and 16. The predecessors to Lease Nos. 11, 15 and 16 continue to be described. We also note that the instrument was executed on behalf of David Petroleum Corp. by William B. Owen, Land Manager.

PATENT INFORMATION

Captioned land was patented by the United States of America to Cory L. Farrow by Patent No. 703578 dated August 26, 1919, recorded in Book 1, page 408, Patent Records.

EASEMENTS

Not covered by this title opinion.

ENCUMBRANCES

None.

TAXES

Taxes are not assessed against severed mineral interests in New Mexico.

TITLE REQUIREMENTS

1.

The primary terms of Lease Nos. 1, 2, 3, 4, 5, 6, 11, 15 and 16 have expired. Lease Nos. 1-6 were properly described in the amended pooling designation described above, and you have indicated that drilling operations commenced on the captioned well in January of 2004. Lease Nos. 11, 15 and 16 were not described in the pooling designation and have expired. In addition, drilling operations apparently were not conducted on the lands covered by the three leases.

REQUIREMENT A: You must satisfy yourself that Lease Nos. 1-6 have been maintained in full force and effect since the expiration of their primary terms by production or operations on the lands covered by the leases or lands pooled therewith.

REQUIREMENT B: Lease Nos. 11, 15 and 16 should be ratified and extended and the ratifications and extensions should be recorded in Lea County, New Mexico. Once the leases have been ratified and extended, the pooling designation described above should be ratified and amended to include the three leases. The ratification and amendment to designation of pooled unit should be recorded in Lea County, New Mexico.

2.

At one time Edith M. Crabb, a widow, owned a one-half mineral interest in the NE/4 SW/4 of Section 26. This woman is deceased and the materials examined reflect that her Will was admitted to probate in Cause No. 8738 in the County Court of Midland County, Texas. By Distribution Deed dated January 1, 1991, recorded in Book 471, page 33, Deed Records, Billy Easley purporting to be the Independent Executor of the her estate conveyed the one-half mineral interest to himself and Gay Crabb Karger in equal shares. In this same instrument, Billy Easley and Gay Crabb Karger conveyed the interest to NCNB Texas National Bank, Trustee. We have not examined the probate proceedings conducted for the Estate of Edith M. Crabb, and it does not appear that any ancillary proceedings have been conducted for her estate in Lea County, New Mexico. This interest is subject to Lease No. 4.

REQUIREMENT A: Submit for examination an authenticated transcript of the probate proceedings conducted for the estate of Edith M. Crabb in Cause No. 8738 in the County Court of Midland County, Texas.

REQUIREMENT B: An ancillary probate proceeding should be conducted for the estate of Edith M. Crabb in Lea County, New Mexico.

3.

At one time, Caroline C. Dewey owned as her separate property a one-half mineral interest in the W/2 SW/4 of Section 26. By Deed dated November 26, 1984, recorded in Book 416, page 11, Deed Records, Caroline C. Dewey, a widow, conveyed to Caroline Andrea Dewey Chew, purportedly as her sole and separate property, the one-half mineral interest. Because consideration was recited in this instrument, a presumption arises that the interest acquired by Caroline Chew was the community property of her and her spouse, if any. Any subsequent conveyance without the joinder of the spouse is void. In this connection, we know that by Deed dated April 7, 1986, recorded in Book 426, page 608, Deed Records, Caroline Andrea Dewey Chew, without the joinder of her spouse, if any, conveyed to H-D Mineral Properties the one-half mineral interest. If Caroline Chew was married on November 26, 1984, which is the date she acquired the mineral interest from Caroline Dewey, the interest acquired would be presumed to be the community property of her and her spouse. This interest is subject to Lease No. 5.

REQUIREMENT: Submit for examination an affidavit of marital history regarding Caroline Andrea Dewey Chew. We reserve possible further requirement.

4.

On April 24, 1950, W. E. Gore and wife, Clarabel Gore, acquired a 1/4 mineral interest in the SE/4 SW/4 of Section 26. Apparently, W. E. Gore predeceased his wife because by Mineral Deed dated October 30, 1995, recorded in Book 516, page 746, Deed Records, Clarabel P. Gore, a widow, conveyed to Charlsie E. Savage and G. G. Gore, in equal shares, all of her interest in the SE/4 SW/4 of Section 26. The materials examined do not include any probate proceedings conducted for the Estate of W. E. Gore. This interest is subject to Lease Nos. 15 and 16.

REQUIREMENT: Submit for examination a certified transcript of any probate proceedings conducted for the Estate of W. E. Gore in New Mexico.

5.

At one time, Frances J. Freeman, a/k/a Patsy Shipp Freeman, owned a 1/8 mineral interest in the SE/4 SW/4 of Section 26. This woman died on January 20, 2001 and probate proceedings were conducted for her estate in Cause No. 2001-82 in the District Court of Lea County, New Mexico. Pursuant to the terms of her Will, she devised all of the remainder of her estate which would include her interest in captioned land to Western Commerce Bank, Trustee u/t/a known as the Frances J. Freeman Revocable Trust Agreement dated February 8, 1983, as amended by its First Amendment dated July 1, 1987, as amended by its Second Amendment dated April 17, 1990 and as further amended and restated by the Third Amendment dated September 1, 1992. Western Commerce Bank was appointed as Personal Representative of the Estate. By Deed of Distribution dated February 27, 2002, recorded in Book 1132, page 739, Lea County Records, Western Commerce Bank, as Personal Representative of the Estate, conveyed to itself, as Trustee of the Frances J. Freeman Revocable Trust dated February 8, 1983, as amended, all of the interest of the decedent at the time of her death in any real property in the State of New Mexico. Her interest in captioned land was not specifically described.

The materials examined also include a Mineral Deed dated June 2, 1993, recorded on March 23, 2001 in Book 1069, page 781, Lea County Records, whereby Frances J. Freeman conveyed to Western

Commerce Bank, Trustee of the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992, all of her interest in the SE/4 SW/4 of Section 26. We note that this mineral deed was recorded after the death of the grantor.

Based upon the materials examined, we do not know if the Frances J. Freeman Revocable Trust dated February 8, 1983 as amended is one and the same trust as the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992. This interest is subject to Lease No. 13.

REQUIREMENT: You should investigate this matter to determine whether the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992 is one and the same as the Frances J. Freeman Revocable Trust dated February 8, 1983, as amended. We reserve possible further requirement.

6.

At one time, G. T. McAlpin owned a 1/16 mineral interest in the SE/4 SW/4 of Section 26 as his separate property. According to a Notice of Probate recorded in Book 834, page 581, Lea County Records, this man died on September 26, 1996 and probate proceedings were conducted for his estate in Cause No. RA 97-285 (PB) in the District Court of Rio Arriba County, New Mexico. The Personal Representative is Angela McAlpin. We have not examined the probate proceedings conducted for this man's estate.

Lease No. 10 was executed by Roger Davidson, Attorney-in-Fact for Angela McAlpin for life. Because we have not examined the probate proceedings for G. T. McAlpin, we do not know how Angela McAlpin acquired a life estate, and we do not know the identify of the remaindermen. In addition, the Power of Attorney, whereby Angela McAlpin appointed Roger Edward Davidson as her attorney-in-fact, dated December 26, 2001, recorded in Book 1152, page 487, Lea County Records, appoints Gabriel Perjessy and Roger Edward Davidson, jointly, as her attorney-in-fact, and does not allow either to act independently of the other.

REQUIREMENT A: Submit for examination a certified transcript of the probate proceedings conducted for the Estate of G. T. McAlpin in the District Court of Rio Arriba County, New Mexico. Once we have examined the proceedings, we may be able to determine how Angela McAlpin acquired a life estate and the identity of the remaindermen.

REQUIREMENT B: Lease No. 10 should be ratified by Gabriel Perjessy and Roger Edward Davidson, as attorneys-in-fact for Angela McAlpin, and the ratification, containing words of grant, should be recorded in Lea County, New Mexico.

7.

Lease No. 3 and the amendment thereto were executed by Steven M. Wyman and Frederick Winston on behalf of Winston Partners, Ltd. The copy of the Articles of Limited Partnership which we have examined, recorded in Book 384, page 152, Miscellaneous Records, show that Elizabeth W. Wyman, James T. Wyman and Frederick Winston are the General Partners, and it requires that any two of the General Partners may act to bind the partnership. We do not know how Steven M. Wyman became one of the General Partners.

REQUIREMENT: Submit for examination the document whereby Steven M. Wyman became a General Partner of Winston Partners, Ltd. such that we may verify that the lease and amendment were executed properly.

8.

By three separate conveyances, one dated January 1, 1991, recorded in Book 471, page 33, Deed Records and the other two dated November 5, 1991, recorded in Book 478, pages 477 and 480, Deed Records, NCNB Texas National Bank, Trustee, became vested with all of the mineral interest in the NE/4 SW/4 of Section 26. Lease No. 4 was executed by Bank of America, N.A., Trustee of the Gay Crabb Karger, Trust, the Billy Easley Trust and the Lawrence E. Karger Trust. We do not know how Bank of America, N.A. succeeded to NCNB Texas National Bank as Trustee. In addition, we have not examined the Trust Agreements for the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust.

REQUIREMENT A: Submit for examination the document whereby Bank of America, N.A. succeeded NCNB Texas National Bank as Trustee.

REQUIREMENT B: Submit for examination a copy of the trust agreements for the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust.

9.

At one time, Lawrence E. Karger and wife, Gay Crabb Karger, owned a one-half mineral interest in the NE/4 SW/4 of Section 26. By instrument dated December 12, 1988, recorded in Book 449, page 178, Deed Records, these people conveyed the interest to themselves as Trustees under Declaration of Trust dated August 29, 1988 for the benefit of the Karger Family. Subsequently, by two separate Deeds, both dated November 5, 1991, Gay Crabb Karger and Lawrence E. Karger, Trustees u/t/a dated August 29, 1988, conveyed the interest to themselves individually. We have not examined the Trust Agreement dated August 29, 1988.

REQUIREMENT: Submit for examination the Trust Agreement dated August 29, 1988 for the benefit of the Karger Family.

10.

Lease No. 4, as amended, from Bank of America, N.A. is for a primary term of four years from date and as long thereafter as oil and gas or either of them is produced in paying quantities from said land or lands with which said land is pooled hereunder and the royalties are paid as provided. In addition, no assignment of the lease or interest therein may be made without written approval of the lessor, such approval shall not be unreasonably withheld. In addition, we note that the amendment to Lease No. 4, executed by Bank of America, N.A., contains a defective acknowledgment because it was not acknowledged by the bank in its capacity as trustee of the trusts.

REQUIREMENT A: Advisory as to the unusual provisions contained in Lease No. 4.

REQUIREMENT B: Submit for examination the written consent of the lessor of Lease No. 4 to all assignments of the lease.

REQUIREMENT C: The Amendment of Oil and Gas Lease dated February 14, 2003 should be re-acknowledged by Bank of America, N.A. in its capacity as Trustee of the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust, and the re-acknowledged amendment of oil and gas lease should be recorded in Lea County, New Mexico

11.

Lease No. 5 and the amendment thereto were executed by F. Ferrell Davis, General Partner of H-D Mineral Properties, a partnership. We have not examined the partnership agreement and cannot advise you as to the authority of F. Ferrell Davis to execute the lease.

REQUIREMENT: Submit for examination a copy of the partnership agreement for H-D Mineral Properties.

12.

Lease No. 7 was executed by Don C. Dennis, individually and as Trustee of the J. M. Dennis Trust; however, it was acknowledged by Don D. Dennis, rather than Don C. Dennis.

REQUIREMENT: Don C. Dennis, individually and as Trustee of the J. M. Dennis Trust should ratify Lease No. 7 with the ratification being acknowledged by Don C. Dennis. The properly executed and acknowledged ratification should be recorded in Lea County, New Mexico.

13.

At one time, Barron Duff Dennis owned a 1/48 mineral interest in the SE/4 SW/4 of Section 26. Lease No. 8 was executed by Jessie A. Dennis as sole heir of Barron Dennis. We have not examined any probate proceedings conducted for the Estate of Barron Duff Dennis.

REQUIREMENT: Submit for examination a certified transcript of the probate proceedings conducted for Barron Duff Dennis in Lea County, New Mexico. We reserve possible further requirement.

14.

By Mineral Deed dated July 10, 1967, recorded in Book 306, page 98, Deed Records, Fredia Irene Madding, formerly Fredia Rayl Wright, conveyed to New Mexico Bank and Trust Company, Trustee pursuant to the provisions of that certain Trust Agreement known as the Fredia Irene Madding Income Trust dated July 10, 1967, a 1/4 mineral interest in the SE/4 SW/4 of Section 26. A subsequent oil and gas lease purporting to cover this interest dated March 20, 1985, recorded in Book 388, page 203, Oil and Gas Records, is from First Interstate Bank of Lea County, Trustee of the Freda Irene Madding Wright Trust, and Lease No. 14 is from Wells Fargo Bank New Mexico, N.A., successor by merger to Norwest Bank New Mexico, N.A., Trustee for Fredia Irene Madding Wright Trust.

There are several problems with this chain of title:

1. We do not know if the Fredia Irene Madding Wright Trust is one and the same trust as the Fredia Irene Madding Income Trust dated July 10, 1967.
2. We do not know how the succession of interest of the trustee from New Mexico Bank and Trust Company to First Interstate Bank of Lea County to Norwest Bank New Mexico, N.A. and finally to Wells Fargo Bank New Mexico, N.A. occurred.

REQUIREMENT A: If in fact Wells Fargo Bank New Mexico, N.A. is the Successor Trustee of the Fredia Irene Madding Income Trust dated July 10, 1967, Lease No. 14 should be ratified by the Bank as Trustee of such trust and the ratification should be recorded in Lea County, New Mexico.

REQUIREMENT B: If Wells Fargo Bank New Mexico, N.A. is not the Successor Trustee of the Fredia Irene Madding Income Trust dated July 10, 1967, you should investigate this matter to determine the identity of the successor trustee and acquire a ratification of the lease from the successor trustee.

REQUIREMENT C: If in fact Wells Fargo Bank New Mexico, N.A. is the Successor Trustee of the Fredia Irene Madding Income Trust dated July 10, 1967, submit for examination the documents reflecting the succession of interest from the New Mexico Bank and Trust Company, Trustee of the Trust, to First Interstate Bank of Lea County, as Trustee, to Norwest Bank New Mexico, N.A., Trustee, and finally to Wells Fargo Bank New Mexico, N.A., Trustee. These documents should be recorded in Lea County, New Mexico.

REQUIREMENT D: Submit for examination a copy of the Trust Agreement for the Fredia Irene Madding Income Trust dated July 10, 1967.

15.

We call to your attention the fact that Lease No. 14 provides for minimum royalties and also states that no assignment of the lease or interest in the lease may be made without approval of the lessor which consent shall not be unreasonably withheld. In addition, this lease contains numerous other unusual provisions which we have set forth above.

REQUIREMENT A: Advisory as to the unusual provisions contained in Lease No. 14.

REQUIREMENT B: Submit for examination the written consent of Bert Ronald Wright and Barbara Wright Seward to the assignments of the lease.

16.

By Mineral Deed dated May 3, 2002, recorded in Book 1145, page 470, Lea County Records, Wells Fargo Bank New Mexico, N.A., Trustee of the Fredia Irene Madding Wright Trust u/t/a dated July 10, 1967, purported to convey to Bert Ronald Wright and Barbara Wright Seward, in equal shares, a 1/10 mineral interest in the SE/4 SW/4 of Section 26. At the time of the conveyance, the bank owned as trustee a 1/4 mineral interest rather than a 1/10 mineral interest. Subsequently, by Correction Mineral Deed dated July 8, 2003, recorded in Book 1238, page 171, Lea County Records, Wells Fargo Bank New Mexico, N.A., as Trustee of the Fredia Irene Madding Wright Trust u/t/a dated July 10, 1967, conveyed to Bert Ronald Wright and Barbara Wright Seward, in equal shares, a 1/4 mineral interest in said lands. This correction mineral deed contains a defective acknowledgment in that it was not acknowledged by the bank in its capacity as trustee of the trust.

Subsequently, by Mineral Deed dated July 16, 2003, recorded in Book 1240, page 686, Lea County Records, Barbara Wright Seward conveyed to Paul D. Seward and Barbara J. Seward, Trustees of the Seward Family Trust u/d/t dated June 26, 2003, a 1/2 of 1/10 mineral interest in said lands. We believe it was the intent of Barbara Wright Seward to convey all of her mineral interest to the trust rather than 1/20 mineral interest. However, we have credited title as if Barbara Wright Seward only conveyed a 1/20 mineral interest to the trust.

REQUIREMENT A: The original of the Correction Mineral Deed recorded in Book 1238, page 171, should be resubmitted to Wells Fargo Bank New Mexico, N.A. so that it may be re-acknowledged showing the capacity of the bank as Trustee of the Fredia Irene Madding Wright Trust u/t/a dated July 10, 1967. The re-acknowledgment instrument should be recorded in Lea County, New Mexico.

REQUIREMENT B: If it was the intent of Barbara Wright Seward to convey to the Seward Family Trust u/d/t dated June 26, 2003 all of her mineral interest, being a 1/8 mineral interest in the SE/4 SW/4 of Section 26, Barbara Wright Seward should quitclaim all of her interest in said land to the trust. The quitclaim should be recorded in Lea County, New Mexico. After the execution and recordation of the quitclaim deed, Barbara Wright Seward and Paul D. Seward, Trustees of the Seward Family Trust u/d/t dated June 26, 2003, should ratify Lease No. 14 and the amendment thereto. The ratification should be recorded in Lea County, New Mexico.

17.

The materials examined include the oil and gas leases described in the attached Exhibit "A" the primary terms of which have long since expired but the leases have not been released of record.

REQUIREMENT: Submit for examination a release of the leases described in the attached Exhibit "A" from the record title owners thereof or, in the alternative, submit for examination an Affidavit of Non-Development and Non-Production which shows that the leases have expired due to lack of production or operations on the lands covered by the leases or lands pooled therewith.

18.

Assignment No. 3 above is subject to a Geophysical Exploration Agreement, West Salty Dog Project, dated December 15, 2000, between the assignor and assignee.

We have not examined this agreement.

REQUIREMENT: Submit for examination a copy of the Geophysical Exploration Agreement dated December 15, 2000.

19.

Lease Nos. 10, 12 and 13 described in this title opinion are new leases, and the underlying leases described in our Original Drilling Title Opinion dated January 6, 2003 have not been released of record.

REQUIREMENT: Submit for examination a release from the record title owners of Lease Nos. 10, 12 and 13 as described in our Original Drilling Title Opinion.

20.

We have credited the original interests of the working interest owners above based upon a working interest spreadsheet which you have provided. This worksheet shows, in part, that the interests are as follows:

David Petroleum Corp., et al.	.0312500
Devon Energy Production Company, L.P.	.0097656
Steve Holifield, Sr.	.0799154
Chesapeake Exploration Limited Partnership	.3196614
Marshall & Winston, Inc.	.2666667
Quanah Exploration Limited Partnership	.0833333
David H. Arrington Oil & Gas, Inc.	.2094076

The only difference in the interests is that for Marshall & Winston, we credited a .2666667 interest rather than a .20 interest as was shown in your spreadsheet. Subsequently, we used these numbers, and in particular, the interests credited to Holifield, Chesapeake, Marshall & Winston, David H. Arrington, to

allocate the .0097656 interest acquired from Devon Energy Production Company, L.P. The resulting interests are those shown in the division of interest above.

We point out our method of calculation of the interests of the working interest owners because the Exhibit "A" to the joint operating agreement we have examined does not reflect the same interests.

REQUIREMENT: If all parties are in agreement with the interests calculated, the Exhibit "A" to the Operating Agreement dated November 20, 2003 should be revised to show these interests. Following the revision, the operating agreement should be executed by all parties, and a copy of the fully executed agreement should be submitted to us for our examination.

21.

Described above as Instrument Nos. 7, 8, 9 and 10 are proposed assignments from David H. Arrington Oil & Gas, Inc. to Marshall & Winston, Inc., Steve L. Hollifield, Sr., Chesapeake Exploration Limited Partnership and Quanah Exploration Limited Partnership of their respective interests in the leases owned by Arrington.

REQUIREMENT: The proposed assignments to the parties described above should be revised to reflect the interests shown in the division of interest. (You are aware that the interests shown as being assigned will need to be grossed up for purpose of calculating the interests shown in the division of interest above.) The fully executed and acknowledged assignments should then be recorded in Lea County, New Mexico. Please note that Lease Nos. 11, 15 and 16 must be ratified and extended prior to any assignments to your working interest owners.

22.

The copy of the Quanah Participation Agreement that we have examined is incomplete in that it does not include any of the exhibits.

REQUIREMENT: We leave it to your discretion whether you wish for us to examine a complete copy of the Quanah Participation Agreement.

23.

The Amended Pooling Designation described above was executed on behalf of David Petroleum Corp. by William B. Owen, Land Manager.

REQUIREMENT: Submit for examination the document whereby the land manager of David Petroleum Corp. is authorized to execute documents on behalf of the company.

24.

All parties credited with an interest above should execute your usual division order.

REQUIREMENT: Advisory.

25.

The materials examined reflect that the date of first sales from captioned land is May 10, 2004.


REQUIREMENT: Advisory.

COMMENT

We do not cover questions of boundary or area, inchoate liens, unrecorded instruments or production purchase contracts, prior dedication of gas reserves, errors or omissions of abstractors or public officials, compliance with or enforcement of any regulations or orders of governmental authorities having jurisdiction, the existence on the premises of contaminants or hazardous materials, naturally occurring or otherwise, environmental matters or any other matters not covered by the materials examined or which could be determined only by an investigation upon the ground or by a survey of the land. This opinion is rendered solely and exclusively for the use and benefit of DAVID H. ARRINGTON OIL & GAS, INC. and for no other party and may be relied upon only by it.

Respectfully submitted,

STUBBEMAN, McRAE, SEALY,
LAUGHLIN & BROWDER, INC.

By: 
Allen G. Harvey

AGH:sab
The abstract examined
is returned herewith.

EXHIBIT "A"

Tract 1 - S/2 SE/4 of Section 26:

1. Dated August 7, 1967, recorded in Book 253, page 454, Oil and Gas Records, from June D. Speight, as lessor, to Union Oil Company of California, as lessee, for a primary term of five years from date.
2. Dated August 14, 1973, recorded in Book 286, page 678, Oil and Gas Records, from June D. Speight, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
3. Dated March 14, 1978, recorded in Book 313, page 97, Oil and Gas Records, from June D. Speight, as lessor, to Samedan Oil Corporation, for a primary term of three years from August 14, 1978.
4. Dated March 22, 1982, recorded in Book 349, page 387, Oil and Gas Records, from June Danglede Speight, as lessor, to Abernathy Exploration Co., for a primary term of three years from date.

Note: This lease is owned of record by Abernathy Exploration Co., Bobby F. Abernathy, Daniel G. Abernathy, Business Men's Assurance Company of America, Gerson Bakar, FBC Petroleum Investment Partnership No. 1, First National Bank of Fort Worth, Trustee, Preston Geron, William Grant, George S. Kaufman, Edward J. Ledger, and Alfred Wilsey.

5. Dated October 25, 1994, recorded in Book 508, page 258, Oil and Gas Records, from June Danglede Speight, as lessor, to David Petroleum Corp., as lessee, for a primary term of three years from date. This lease is owned of record by Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation, David Petroleum Corp. and Nearburg Exploration Company, LLC.

Tract 2 - N/2 SE/4 of Section 26:

6. Dated May 19, 1965, recorded in Book 238, page 264, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
7. Dated May 19, 1965, recorded in Book 238, page 282, Oil and Gas Records, from Donald Winston, Trustee of the Francisca S. Winston Trust, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.

Note: The two foregoing leases are owned of record by Union Oil Company of California.

8. Dated May 20, 1973, recorded in Book 286, page 659, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
9. Dated May 20, 1973, recorded in Book 286, page 661, Oil and Gas Records, from Donald Winston, Trustee u/t dated December 31, 1941, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
10. Dated March 16, 1978, recorded in Book 309, page 62, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
11. Dated March 16, 1978, recorded in Book 309, page 349, Oil and Gas Records, from Donald Winston, Trustee u/t dated December 31, 1941, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

Note: The foregoing two leases are owned of record by Bass Enterprises Production Co., Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

12. Dated October 28, 1994, recorded in Book 507, page 566, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to David Petroleum Corporation, as lessee, for a primary term of three years from date.

13. Dated October 28, 1994, recorded in Book 508, page 253, Oil and Gas Records, from Winston Partners, Ltd., as lessor, to David Petroleum Corporation, as lessee, for a primary term of three years from date.

Note: The foregoing two leases are owned of record by David Petroleum Corporation, Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.

Tract 3 - NE/4 SW/4 of Section 26:

14. Dated April 26, 1965, recorded in Book 238, page 276, Oil and Gas Records, from J. E. Crabb and wife, Ellen Crabb, as lessors, to A. C. Holder, as lessee, for a primary term of five years from date. This lease is owned of record by Union Oil Company of California.
15. Dated August 23, 1977, recorded in Book 307, page 141, Oil and Gas Records, from Edith Crabb, Independent Executrix of the Estate of R. C. Crabb, Jr., as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
16. Dated July 12, 1978, recorded in Book 312, page 282, Oil and Gas Records, from First National Bank of Midland, Agent and Attorney-in-Fact for John Ed Crabb, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

Note: The foregoing two leases are owned of record by Bass Enterprises Production Company, Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

17. Dated April 10, 1985, recorded in Book 384, page 856, Oil and Gas Records, from Lidia Crabb, Trustee of the John E. Crabb Trust, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
18. Dated April 10, 1985, recorded in Book 384, page 856 and in Book 388, page 228, Oil and Gas Records, from Lidia Crabb, Trustee of the John E. Crabb Trust, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
19. Dated May 2, 1985, recorded in Book 388, page 225, Oil and Gas Records, from Edith M. Crabb, a widow, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.

Note: The foregoing three leases are owned of record by Horizon Exploration Company.

20. Dated January 19, 1994, recorded in Book 498, page 446, Oil and Gas Records, from Nations Bank of Texas, N.A., Trustee of the Gay Crabb Karger Trust, et al., as lessors, to Randy V. Watts, as lessee, for a primary term of three years from date. This lease is owned of record by David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.
21. Dated January 20, 1997, recorded in Book 782, page 204, Lea County Records, from Nations Bank of Texas, N.A., Trustee of the Gay Crabb Karger Trust, et al., as lessors, to Randy V. Watts, as lessee, for a primary term of three years from date.

Tract 4 - W/2 SW/4 of Section 26:

22. Dated May 17, 1965, recorded in Book 238, page 274, Oil and Gas Records, from Caroline C. Dewey, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
23. Dated May 17, 1965, recorded in Book 238, page 280, Oil and Gas Records, from E. A. Wahlstrom, et ux, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.

Note: The foregoing two leases are owned of record by Union Oil Company of California.

24. Dated December 22, 1972, recorded in Book 286, page 637, Oil and Gas Records, from Caroline C. Dewey, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
25. Dated January 10, 1973, recorded in Book 286, page 635, Oil and Gas Records, from Roberta Jane Wahlstrom, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

26. Dated September 6, 1977, recorded in Book 305, page 317, Oil and Gas Records, from Caroline C. Dewey, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from December 22, 1977.
27. Dated August 23, 1977, recorded in Book 305, page 319, Oil and Gas Records, from Roberta Jane Wahlstrom, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from January 10, 1978.

Note: The foregoing two leases are owned of record by Bass Enterprises Production Company, Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

28. Dated April 18, 1985, recorded in Book 385, page 144, Oil and Gas Records, from Caroline Dewey Chew, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
29. Dated April 18, 1985, recorded in Book 385, page 144 and re-recorded in Book 388, page 220, Oil and Gas Records, from Caroline Dewey Chew, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
30. Dated March 18, 1985, recorded in Book 388, page 223, Oil and Gas Records, from Christine Jane Bell, as lessor, to Robert P. Byron, as lessee, for a primary term of five years from date.

Note: The foregoing three leases are owned of record by Horizon Exploration Company.

31. Dated December 14, 1993, recorded in Book 498, page 486, Oil and Gas Records, from H-D Mineral Properties to Randy V. Watts originally for a primary term of three years from date but extended to be for a primary term of six years from date.
32. Dated July 27, 1993, recorded in Book 498, page 492, Oil and Gas Records, from Christine Jane Bell, et vir, as lessors, to Randy V. Watts, as lessee, for a primary term of five years from date.

Note: The two foregoing leases are owned of record by David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.

Tract 5 - SE/4 SW/4 of Section 26:

33. Dated April 26, 1965, recorded in Book 238, page 266, Oil and Gas Records, from Barry R. Freeman, et ux, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
34. Dated April 26, 1965, recorded in Book 238, page 268, Oil and Gas Records, from Lora B. McAlpin, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
35. Dated May 17, 1965, recorded in Book 238, page 270, Oil and Gas Records, from W. E. Gore, et ux, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
36. Dated April 26, 1965, recorded in Book 238, page 272, Oil and Gas Records, from Fredia Wright Watson Madding, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
37. Dated April 26, 1965, recorded in Book 238, page 278, Oil and Gas Records, from Frankie Monteith, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.

Note: The foregoing five leases are owned of record by Union Oil Company of California.

38. Dated January 2, 1973, recorded in Book 286, page 639, Oil and Gas Records, from Frankie Monteith, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
39. Dated January 2, 1973, recorded in Book 286, page 641, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
40. Dated January 29, 1973, recorded in Book 286, page 643, Oil and Gas Records, from New Mexico Bank and Trust Company, Trustee for Freda Wright Watson Madding, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

41. Dated February 6, 1973, recorded in Book 286, page 645, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
42. Dated January 25, 1973, recorded in Book 286 page 647, Oil and Gas Records, from Joe Dennis, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
43. Dated February 13, 1974, recorded in Book 286, page 649, Oil and Gas Records, from Frances J. Freeman, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
44. Dated September 6, 1977, recorded in Book 305, page 321, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from February 6, 1978.
45. Dated October 24, 1977, recorded in Book 306, page 541, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of three years from January 2, 1978.
46. Dated October 24, 1977, recorded in Book 307, page 84, Oil and Gas Records, from New Mexico Bank and Trust Company, as Trustee for Freda Wright Watson Madding, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of three years from January 29, 1978.
47. Dated November 29, 1977, recorded in Book 307, page 671, Oil and Gas Records, from Frankie Monteith, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from January 2, 1978.
48. Dated July 31, 1978, recorded in Book 312, page 745, Oil and Gas Records, from Joe Dennis, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of three years from date.
49. Dated September 22, 1978, recorded in Book 313, page 661, Oil and Gas Records, from Frances J. Freeman, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from February 13, 1979.
50. Dated December 23, 1980, recorded in Book 334, page 113, Oil and Gas Records, from New Mexico Bank and Trust Company, Trustee for Freda Wright Watson Madding Trust, as lessor, to Lee House, as lessee, for a primary term of three years from January 29, 1981.
51. Dated December 19, 1980, recorded in Book 334, page 115, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Lee House, as lessee, for a primary term of three years from January 2, 1981.

Note: The foregoing eight leases are owned of record by Bass Enterprises Production Company, Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

52. Dated March 20, 1985, recorded in Book 388, page 203, Oil and Gas Records, from First Interstate Bank of Lea County, Trustee of the Freda Irene Madding Wright Trust, as lessor, to Michael S. Richardson, as lessee, for a primary term of three years from date.
53. Dated March 27, 1985, recorded in Book 388, page 207, Oil and Gas Records, from Frances J. Freeman, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
54. Dated March 18, 1985, recorded in Book 388, page 210, Oil and Gas Records, from Sandra Lee Ponder Joy, as lessor, to Robert P. Byron, as lessee, for a primary term of five years from date.
55. Dated April 8, 1985, recorded in Book 388, page 213, Oil and Gas Records, from Don Dennis, Executor, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
56. Dated March 18, 1985, recorded in Book 388, page 218, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Robert P. Byron, as lessee, for a primary term of five years from date.

Note: The foregoing five leases are owned of record by Horizon Exploration Company.

57. Dated April 28, 1993, recorded in Book 498, page 484, Oil and Gas Records, from Clarabel Gore, as lessor, to Randy V. Watts, as lessee, for a primary term of five years from date.

- 58. Dated May 6, 1993, recorded in Book 498, page 488, Oil and Gas Records, from Frances J. Freeman, as lessor, to Randy V. Watts, as lessee, for a primary term of three years from date.
- 59. Dated December 10, 1993, recorded in Book 498, page 490, Oil and Gas Records, from United New Mexico Trust Company, Trustee of the Fredia Madding Wright Trust, as lessor, to Randy V. Watts, as lessee, originally for a primary term of three years from date but extended to be for a primary term of four years from date.
- 60. Dated December 27, 1993, recorded in Book 498, page 482, Oil and Gas Records, from Sandra Lee Ponder Joy, as lessor, to Randy V. Watts, as lessee, for a primary term of three years from date.
- 61. Dated December 6, 1994, recorded in Book 509, page 349, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Randy V. Watts, as lessee, for a primary term of one year from date.
- 62. Dated December 6, 1994, recorded in Book 509, page 280, Oil and Gas Records, from G. T. McAlpin, et ux, as lessors, to Randy V. Watts, as lessee, for a primary term of one year from date.

Note: The foregoing six leases are owned of record by David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.

- 63. Dated January 31, 1995, recorded in Book 511, page 694, Oil and Gas Records, from Don C. Dennis, et al., as lessors, to Randy V. Watts, as lessee, for a primary term of two years from date.
- 64. Dated February 14, 1995, recorded in Book 511, page 700, Oil and Gas Records, from Jessie A. Dennis, as lessor, to Randy V. Watts, as lessee, for a primary term of two years from date.

Note: The foregoing two leases are owned of record by Randy V. Watts and wife, J. Michelle Watts and/or David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc. and Permian Exploration Corporation.

- 65. Dated October 24, 1995, effective December 7, 1995, recorded in Book 524, page 336, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Randy V. Watts, as lessee, originally for a primary term of one year from December 7, 1995 but extended to be for a primary term of two years from said date.
- 66. Dated October 24, 1995, effective December 7, 1995, recorded in Book 526, page 558, Oil and Gas Records, from G. T. McAlpin, et ux, as lessors, to Randy V. Watts, as lessee, originally for a primary term of one year from December 7, 1995 but extended to be for a primary term of two years from said date.
- 67. Dated April 16, 1997, recorded in Book 798, page 511, Oil and Gas Records, from Jessie A. Dennis, as lessor, to Randy V. Watts, as lessee, for a primary term of two years from date.

Note: The foregoing three leases are owned of record by Randy V. Watts and wife, J. Michelle Watts, but it appears that David Petroleum Corp. may claim an interest.

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER, INC.
ATTORNEYS AT LAW

MIDLAND, TEXAS
FASKEN CENTER - TOWER TWO
550 WEST TEXAS AVENUE, SUITE 800 • 79701
P.O. BOX 1540 • 79702
915/682-1616
FACSIMILE 915/682-1351
FACSIMILE 915/682-4884

ALLEN G. HARVEY
LICENSED IN TEXAS AND NEW MEXICO
DIRECT DIAL 688-0290
aharvey@stubbemanlawfirm.com

January 6, 2003

ORIGINAL DRILLING TITLE OPINION

David H. Arrington Oil & Gas, Inc.
214 W. Texas, Suite 400
P. O. Box 2071
Midland, TX 79702

Attn: Mr. David H. Arrington

Re: June Danglade Speight, et al. oil and gas leases covering the following land in LEA
COUNTY, NEW MEXICO:

Township 15 South, Range 34 East, N.M.P.M.

Section 26: S/2,

containing 320 acres, more or less.

DMA
Green Eged Speight, et al.
W. SALLY DOG

Gentlemen:

We have examined the following:

ABSTRACT

Abstract No. 02-621, in four parts, certified by Elliott & Waldron Title & Abstract Co., Inc. as
covering the mineral estate only of captioned land for the period from inception of the records to
November 13, 2002 at 7:00 a.m., containing 1,052 pages.

Based upon examination of the foregoing and subject to the title requirements hereinafter made,
we find that as of November 13, 2002 at 7:00 a.m., title to captioned land is vested as follows:

FEE TITLE

Surface Estate:

Not reported; however, the surface and mineral estates were completely severed on July 28, 1937.

Mineral Estate:

S/2 SE/4 of Section 26:

June Danglade Speight, as her separate property Lease No. 1 All

N/2 SE/4 of Section 26:

Marshall & Winston, Inc. Lease No. 2 3/4

Winston Partners, Ltd. Lease No. 3 1/4

NE/4 SW/4 of Section 26:

Bank of America, N.A., Trustee of the
Gay Crabb Karger Trust Lease No. 4 57.50%

Bank of America, N.A., Trustee of the
Lawrence E. Karger Trust Lease No. 4 17.50%

Bank of America, N.A., Trustee of the
Billy Easley Trust Lease No. 4 25.00%

W/2 SW/4 of Section 26:

H-D Mineral Properties, a partnership Lease No. 5 1/2

Bobby V. Bell and wife, Christine Jane Bell,
as joint tenants Lease No. 6 1/2

SE/4 SW/4 of Section 26:

Don C. Dennis, Trustee of the
J.M. Dennis Trust Lease No. 7 1/16

Don C. Dennis, as his separate property Lease No. 7 1/48

The heirs or devisees of Barron Duff Dennis Lease No. 8 1/48

JoAnn DeNitto, as her separate property Lease No. 9 1/48

Angela McAlpin, Personal Representative
of the Estate of G. T. McAlpin, deceased Lease No. 10 1/16

Lora B. McAlpin, as her separate property Lease No. 11 1/16 *

* The royalty attributable to this interest is owned by Lora B. McAlpin, Trustee of the Lora B. McAlpin Trust
dated July 23, 1991.

Sandra Lee Ponder Joy, as her separate property Lease No. 12 1/8

Western Commerce Bank, Trustee of the Frances J.
Freeman Revocable Living Trust u/t/a dated 9/1/92 Lease No. 13 1/8

Wells Fargo Bank New Mexico, N.A., successor to
Norwest Bank New Mexico, Trustee of the Fredia
Irene Madding Wright Trust u/t/a dated 7/10/67 Lease No. 14 3/20

Bert Ronald Wright, as his separate property Lease No. 14 1/20

Barbara Wright Seward, as her separate property Lease No. 14 1/20

The heirs or devisees of W. E. Gore Unleased 1/8

Charlsie E. Savage, whose marital status is unknown ... Lease No. 15 1/16

G. G. Gore, whose marital status is unknown Lease No. 16 1/16

OIL AND GAS LEASEHOLD ESTATE

S/2 SE/4 of Section 26:

David H. Arrington Oil & Gas, Inc. Lease No. 1 1/2 x 3/4 WI

Devon SFS Operating, Inc. Lease No. 1 1/4 x 3/4 WI

Chesapeake Exploration Limited Partnership Lease No. 1 1/4 x 3/4 WI

N/2 SE/4 of Section 26:

David H. Arrington Oil & Gas, Inc. Lease Nos. 2 & 3 1/2 x 3/4 WI

Devon SFS Operating, Inc. Lease Nos. 2 & 3 1/4 x 3/4 WI

Chesapeake Exploration Limited Partnership Lease Nos. 2 & 3 1/4 x 3/4 WI

NE/4 SW/4 of Section 26:

David H. Arrington Oil & Gas, Inc.	Lease No. 4	1/2 x 3/4	WI
Devon SFS Operating, Inc.	Lease No. 4	1/4 x 3/4	WI
Chesapeake Exploration Limited Partnership	Lease No. 4	1/4 x 3/4	WI

W/2 SW/4 of Section 26:

David H. Arrington Oil & Gas, Inc.	Lease No. 5	1/2 x 1/2 x 3/4	WI
	Lease No. 6 . <u>plus</u>	1/2 x 1/2 x 13/16	WI *
Devon SFS Operating, Inc.	Lease No. 5	1/4 x 1/2 x 3/4	WI
	Lease No. 6 . <u>plus</u>	1/4 x 1/2 x 13/16	WI *
Chesapeake Exploration Limited Partnership	Lease No. 5	1/4 x 1/2 x 3/4	WI
	Lease No. 6 . <u>plus</u>	1/4 x 1/2 x 13/16	WI *

* These interests are subject proportionately to a 1/16 overriding royalty interest owned as follows:

Dale Douglas, whose wife is Renee Douglas	1.00%
Alpine Petroleum, Inc.	1.00%
John R. McRae	1.00%
The Monument Abo Company	3.25%

SE/4 SW/4 of Section 26:

David H. Arrington Oil & Gas, Inc.	Lease Nos. 7, 8 & 9	3/4 x 1/8 x 3/4	WI
	Lease No. 10	<u>plus</u>	1/2 x 1/16 x 4/5 WI ¹
	Lease No. 13	<u>plus</u>	1/2 x 1/8 x 13/16 WI ²
	Lease No. 12	<u>plus</u>	1/2 x 1/8 x 77.5% WI ³
	Lease Nos. 11, 14, 15 & 16	<u>plus</u>	1/2 x 5/16 x 3/4 WI
Devon SFS Operating, Inc.	Lease No. 10	1/4 x 1/16 x 4/5	WI ¹
	Lease No. 13	<u>plus</u>	1/4 x 1/8 x 13/16 WI ²
	Lease No. 12	<u>plus</u>	1/4 x 1/8 x 77.5% WI ³
	Lease Nos. 11, 14, 15 & 16	<u>plus</u>	1/4 x 5/16 x 3/4 WI
Chesapeake Exploration Limited Partnership.	Lease Nos. 7, 8 & 9	1/4 x 1/8 x 3/4	WI
	Lease No. 10	<u>plus</u>	1/4 x 1/16 x 4/5 WI ¹
	Lease No. 13	<u>plus</u>	1/4 x 1/8 x 13/16 WI ²
	Lease No. 12	<u>plus</u>	1/4 x 1/8 x 77.5% WI ³
	Lease Nos. 11, 14, 15 & 16	<u>plus</u>	1/4 x 5/16 x 3/4 WI
Unleased			1/8 ULMI

Notes: ¹ These interests are subject proportionately to a 5% overriding royalty interest owned as follows:

Dale Douglas, whose wife is Renee Douglas	1.00%
Alpine Petroleum, Inc.	1.00%
John R. McRae	1.00%
The Monument Abo Company	2.00%

² These interests are subject proportionately to a 1/16 overriding royalty interest owned as follows:

Dale Douglas, whose wife is Renee Douglas	1.00%
Alpine Petroleum, Inc.	1.00%
John R. McRae	1.00%
The Monument Abo Company	3.25%

³ These interests are subject proportionately to a 2.5% overriding royalty interest owned as follows:

Dale Douglas, whose wife is Renee Douglas	.8333333%
Alpine Petroleum, Inc.	.8333333%
John R. McRae	.8333334%

EXISTING OIL AND GAS LEASES

sk *VM-21-6-0* Lease No. 1: *1204/803 - Extended*

Date: March 16, 2000.

3-16-03 / 3-16-04

Recorded: Book 1013, page 692, Lea County Records.

Lessor: June D. Speight.

Lessee: David H. Arrington Oil & Gas, Inc.

Lands Covered: S/2 SE/4 of Section 26,
containing 80 acres, more or less.

Interest Covered: All.

Primary Term: Three years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after a well is shut-in and annually thereafter, lessee may pay an advanced shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under the lease.

Depository: None provided. All payments are to be made to the lessor at P. O. Box 1687, Lovington, New Mexico 88260.

Delay Rentals: None provided. This is a paid-up lease.

yes Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico, plus a tolerance of 10%.

Lease Form: Producers 88 - Producers Revised 1994 New Mexico Form 342P, Paid-Up.

Unusual Provisions: 12. Notwithstanding anything contained herein to the contrary, it is hereby understood and agreed that at the expiration of the primary term, this lease shall terminate as to all lands covered hereby not then included in or otherwise allocated to a "well unit", as hereinafter defined, unless lessee is producing oil, gas or other hydrocarbons from any well on the leased premises or lands pooled therewith, or is drilling upon said lands across the expiration of the primary term as provided for in the body of this lease, and does not allow more than 180 days to elapse between the completion or abandonment of one well on such land and the commencement of another well thereon until the leased premises have been fully "developed", as hereinafter defined. Operations for drilling of the first such development well must be commenced (a) within 180 days after the expiration of the primary term if production is established under this lease prior to the expiration of the primary term, or (b) within 180 days of completion of the well which is being drilled, tested or completed across the expiration of

the primary term. Should lessee fail to timely commence a well in accordance with the aforesaid 180 day continuous drilling or development prior to the point in time the leased premises have been fully developed, then this lease shall terminate as to all lands not included in or otherwise allocated to a well unit. For the purpose hereof, the term "well unit" shall mean the proration or spacing unit created for a well capable of producing oil and/or gas or other hydrocarbons in paying quantities as in accordance with the applicable rules and regulations of the New Mexico Oil and Gas Commission or other governmental authority having jurisdiction, and the term "fully developed" shall mean the point in time when the entirety of the leased premises has been included in a well unit or units as defined. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed, and as to the lands so fully developed shall terminate as to all depths lying more than 100 feet below the total depth drilled on the leased premises or lands pooled therewith.

13. Payment of shut-in gas royalties will not be permitted to maintain this lease in force for any period longer than two consecutive years, without the written consent of lessor.

*
OK Lease No 2: 1217/456 - Extended

NM-263-1

Date:

March 30, 2000.

3-30-03 / 3-30-04

Recorded:

Book 1013, page 92, Lea County Records.

Lessor:

Marshall & Winston, Inc. → Same as Oil & Gas

Lessee:

David H. Arrington Oil & Gas, Inc.

Land Covered:

Township 15 South, Range 34 East, N.M.P.M.

Section 26: N/2 SE/4

Township 15 South, Range 35 East, N.M.P.M.

Section 23: E/2, SE/4 NW/4, E/2 SW/4, NW/4 SW/4

Section 26: W/2

Section 27: S/2 SE/4, SE/4 SW/4

Section 34: NW/4 NE/4,

containing 1,040 acres, more or less.

Interest Covered:

3/4 interest in the N/2 SE/4 of Section 26.

Primary Term:

Three years from date.

Royalties:

1/4 on oil and gas.

Shut-In Gas

Well Royalties:

On or before sixty days after the date on which a well is shut-in and annually thereafter, lessee shall pay as royalty the sum of \$1,040.00 per well for each shut-in gas well. The lease may not be extended by payment of such annual shut-in gas well payments in excess of two annual periods.

Depository:

All payments are to be made to the lessor at P. O. Box 50880, Midland, Texas 79710-0880.

Delay Rentals:

None provided. This is a paid-up lease.

Yes Pooling Provision:

Lessee is authorized to pool the lands covered by the lease with other lands into units not to exceed 40 acres plus a tolerance of 10% for oil and 640 acres plus a tolerance of 10% for gas.

Lease Form: Special typewritten form.

Unusual Provisions:

13. Lessee agrees to furnish Lessor, at the request of Lessor, free of charge, one legible copy of any and all well or lease data, information or reports concerning any well, proposed well or any transaction affecting the leased premises when such data, information or reports become available, including, but not limited to, acoustical, electrical, gamma ray, neutron, spectral or any other type log, drilling reports, completion reports, potential tests, drill stem tests, plugging and abandoning reports, assignments, drilling opinions, division order opinions or any other title opinions, that affect title to said lands. All such data, information and reports shall, when requested and available, be mailed direct to Lessor at the address set out above.
14. At the end of the primary term, if Lessee is engaged in drilling operations or if Lessee has completed a well on the leased premises either as a dry hole or a commercial producer within one hundred eighty (180) days prior to the expiration of the primary term, this lease shall remain in effect so long as operations are commenced and prosecuted with a cessation of no more than one hundred eighty (180) days between the completion of one well on said land as a well capable of producing oil and/or gas in paying quantities or a dry hole and commencement of drilling of the next well on said land. Completion shall be considered the date the well reaches total depth. Commencement shall be considered the date a rig capable of reaching total depths is placed on location.

As used herein, the term "proration unit" means a tract as nearly in the form of a square as possible allocated by the appropriate governmental regulatory body to a well, which tract is of such size as to entitle the well to a full allowable. Anything herein to the contrary notwithstanding, this lease will terminate at the end of the primary term or at the end of any continuous development program as herein provided as to the following:

- (a) Each proration unit on which a dry hole has been drilled, and each undrilled proration unit; and
 - (b) All horizons below 100 feet below the deepest depth drilled on each proration unit.
15. At the end of the primary term or any extensions allowed hereunder and at the request of Lessor, Lessee agrees to prepare and deliver a release of all lands and horizons not earned under this lease.

Note: Lease No. 3 is on the same form and contains the same terms and provisions as Lease No. 2, except as follows:

OK Lease No. 3: 1204 (801 - Extended

Date:

March 30, 2000.

3-30-03

3-30-04

Recorded:

Book 1013, page 689, Lea County Records.

Lessor:

Winston Partners, Ltd.

Land Covered:

Township 15 South, Range 34 East, N.M.P.M.
Section 26: N/2 SE/4.

Interest Covered:

1/4 interest.

Abstract & County Records

show this to be Open

Page 7
January 6, 2003

Depository:

c/o Sargent Management, 4800 First Bank Place, Minneapolis, Minnesota 55402.

Unusual Provisions:

Same as Lease No. 2.

Lease No. 4:

Date:

April 1, 2000.

Recorded:

Book 1021, page 718, Lea County Records. 6-12-01

Lessor:

Bank of America, N.A., Trustee of the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust.

Lessee:

David H. Arrington Oil & Gas, Inc.

Lands Covered:

NE/4 SW/4 of Section 26,

containing 40 acres, more or less.

Interest Covered:

All interest. (See Requirement No. 7)

Primary Term:

Three years from date and as long thereafter as oil and gas or either of them is produced in paying quantities from said lands or lands with which said land is pooled hereunder and the royalties are paid as provided.

Royalties:

1/4 on oil and gas.

Shut-In Gas
Well Royalties:

On or before ninety days after the date on which (1) production from any well is shut-in or suspended or the lease is no longer maintained by compliance with other provisions hereof whichever is the later date and annually thereafter lessee may pay as royalty a sum of \$1.00 per acre or a minimum of \$50.00 whichever is greater for each and every shut-in gas well. In no event shall shut-in well payments maintain the lease in force for a cumulative period exceeding two years.

Depository:

All payments are to be made to the lessor at P. O. Box 830308, Dallas, Texas 75283.

Delay Rentals:

None provided. This is a paid-up lease.

Pooling Provision:

Lessee is authorized to pool the lands covered by the lease with other lands into units for oil not to exceed 40 acres and units for gas not to exceed 640 acres.

Lease Form:

Bank of America special form.

Unusual Provisions:

3. (g) Lessee agrees that if it enters into any contract for sale of any Products from this lease, which shall extend for 3 (three) years from the effective date of such sales contract and such contract does not have adequate provisions for redetermination of price at intervals of not less frequently than annually, then Lessee, its successors and assigns, shall in advance of executing any such sales contract provide Lessor with a full and complete copy of the proposed contract for the purpose of allowing Lessor to determine whether Lessee may sell Lessor's royalty share of Products under Lessee's proposed sales contract. Lessor shall, within thirty (30) days' of receiving such sales contract, notify Lessee as to whether Lessee may sell Lessor's royalty share of Products under Lessee's proposed sales contract. In the event Lessor approves Lessee's proposed

sales contract, Lessee shall pay the Lessor 1/4 (one-fourth) of all consideration received by or for the benefit of Lessee under said contract, without deducting any post-production costs or expenses, including without limitation, cost or expenses for dehydrating, transporting, compressing, treating, gathering, or otherwise rendering marketable or marketing the Products. In the event Lessor does not approve Lessee's proposed sales contract, then Lessor's royalty shall nonetheless, be calculated by using the highest price paid or offered for Products of comparable quality in the general area where produced and when run.

- (h) Lessor, at its sole option and discretion, may from time to time elect to take in kind and separately dispose of its royalty share of the gas for such periods of time as Lessor may designate in writing. In the event Lessor elects in writing to take and separately dispose of its royalty share of the gas, an appropriate gas balancing agreement shall be entered into between the parties. It is expressly agreed, however, that the inclusion of an option to permit Lessor to take its royalty gas in kind shall not modify or limit Lessee's duty to pay royalties as provided herein or to market the gas at such times, and from time to time, as Lessor does not choose to take and separately dispose of its royalty gas.
- (i) Within 120 days following the first sale of oil or gas produced from the leased premises, settlement shall be made by Lessee or by its agent for royalties due hereunder with respect to such oil or gas sold off the premises, and such royalties shall be paid monthly thereafter without the necessity of Lessor executing a division or transfer order. If said initial royalty payment is not so made under the terms hereof, this lease shall terminate as of 7 a.m. the first day of the month following the expiration of said 120-day period. After said initial royalty payments, with respect to oil or gas produced during any month, if royalty is not paid hereunder on or before the last day of the second succeeding month, this lease shall terminate at midnight of such last day.

THIS IS A PAID-UP OIL & GAS LEASE, ALL DELAY
RENTALS REFERRED TO HEREIN ARE PAID IN
FULL

- 9. No assignment of this lease, or interest therein, may be made without written approval of the Lessor, such approval shall not be unreasonably withheld.
- 12. Lessor herein executes and delivers this lease without warranty of title either express or implied.
- 14. Lessee shall advise Lessor in writing as to the location of each well drilled upon the premises, or on land pooled therewith, on or before seven (7) days after commencement of operations, and shall advise Lessor in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Lessor with all well drilling, completion and production data, reports, title opinions, logs and information when specifically requested by the Lessor. Lessee agrees that immediately following this instrument being recorded in the county records where

the leased premises are located that Lessee will provide Lessor with a copy of this fully recorded instrument as it appears in said records.

15. If at the end of the primary term this lease is still in force, this lease shall expire as to all that part of said land (as hereinafter described) on which there is not a producing oil or gas well or on which Lessee is not then drilling or reworking a well. At the end of the primary term, Lessee shall select and designate a producing unit around and including each producing oil or gas well or drilling or reworking well, the area of such unit to be limited to and conform with the minimum area provided for or established directly or indirectly in the applicable rules and regulations of the appropriate governing body of the state in which the subject acreage is located with reference to the spacing of wells or the size of producing units. As to each producing unit so designated, this lease shall continue in force so long as oil or gas is produced in paying quantities therefrom or so long as drilling or reworking operations are prosecuted thereon as provided in paragraph 6 and shall be limited in depth from the surface down to and including 50 feet below the base of the deepest producing formation however such lower depth limit shall not exceed 100 feet below the deepest producing perforation within the wellbore situated on that producing unit; and Lessee shall execute a release of this lease as to the balance of the land covered hereby as well as formations at depths below the respective producing units. In the absence of field rules promulgated by the appropriate governing body of the state in which such acreage is located, the term "producing unit" as used herein means the following number of acres, depending on the depth to which the well has been drilled, and whether the well is an oil or gas well: A. 40 acres for an oil well completed at any depth; B. (i) 80 acres for a gas well completed at a depth of less than 2,000 feet subsurface; (ii) 160 acres for a gas well completed at a depth of 2,000 feet subsurface to 6,000 feet subsurface; (iii) 320 acres for a gas well completed at a depth of 6,000 feet subsurface to 9,000 feet subsurface; (iv) 640 acres for a gas well completed at a depth greater than 9,000 feet subsurface. If a portion of Lessee's rights terminate as provided in this Paragraph 15, then Lessee shall designate in writing the acreage it is allowed to retain around each oil well and each gas well and such written designation shall be filed for record in the county in which such acreage is located. Lessee shall be entitled to designate the number of acres above specified in a form of his choosing so long as no side is more than twice as long as any other side. The provisions of this paragraph 15 shall not have the effect of relieving the Lessee of its obligations to develop the lease with reasonable diligence after oil or gas is first discovered in paying quantities.

*

OK Lease No. 5: 1204/199 - Extended

NM-26-5-2 Date:

June 21, 2000.

6-21-03 / 6-21-04

Recorded:

Book 1029, page 127, Lea County Records.

Lessor:

H-D Mineral Properties

Lessee:

David H. Arrington Oil & Gas, Inc.

Lands Covered:

W/2 SW/4 of Section 26,

containing 80 acres, more or less.

Interest Covered: 1/2 interest.

Primary Term: Three years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties:

On or before ninety days after a well is shut-in and annually thereafter, lessee may pay as royalty an amount per year equal to \$5.00 per net mineral acre for the acreage within the proration unit allocated to such gas well. After the end of the primary term, payment of shut-in gas royalty will maintain the lease only as to the proration unit allocated to such shut-in well and only for any single period not to exceed two years provided, however, lessee shall be entitled to evoke the shut-in royalty provisions from time to time for periods not to exceed two years, provided that lessee shall have actually marketed gas in paying quantities from said land or land pooled therewith in good faith after the end of each prior period for which lessee is paid shut-in gas royalty under the lease.

Depository: All payments are to be made to the lessor at P. O. Box 3061, Midland, Texas.

yes Pooling Provision: Lessee is authorized to pool the lands covered by the lease with other lands into units not exceeding 40 acres for oil or 320 acres for gas plus a tolerance of 10% each.

Lease Form: Producers 88H/98 Paid-Up with/Pooling.

Unusual Provisions: 2. The review period for purposes of determining whether production is in paying quantities shall be the 365 consecutive-day period chosen by Lessor.

3. (e) Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for, and the value thereof shall not be reduced directly or indirectly so as to offset all or any part of, the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee shall directly reimburse Lessor for any charges, expenses or price differentials occasioned by allowance for such costs and withheld by any purchaser, gatherer, processor, pipeline company, Lessee or others.

(f) Notwithstanding anything contained in paragraph 3 or elsewhere in this lease to the contrary, Lessor at any time and from time to time on sixty (60) days prior notice in writing to Lessee may require that payment of all or any part of the royalties accrued to Lessor under this lease on oil, gas or any product be made in kind effective as of the first day of the calendar month next following the expiration of said sixty (60) day period or if payment of any such royalties are then being made to Lessor in kind, require that such in kind payment cease and that payment of such royalties thereafter be made as otherwise provided in this paragraph 3. In the event Lessor elects to take in kind, Lessee shall make all its leasehold and pipeline facilities available for Lessor's use without charge or deduction therefor.

(h) Within ninety (90) days following the date of first sale of oil and/or gas produced from said land, all royalties from such production due Lessor by virtue

of this lease shall be paid to Lessor. Thereafter, royalty shall be paid to Lessor on or before the last day of the second month succeeding the month of production. In the event royalty is not so timely paid, Lessee agrees that it will pay to Lessor interest on the amount so due at the NationsBank of Texas, N.A., prime rate per annum for the royalties so owing, said interest to commence on the day following the date such royalty is owing by the terms hereof.

7. After the discovery of oil and/or gas on said land, Lessee shall further develop said land as a reasonably prudent operator would do in the same or similar circumstances. Lessee shall adequately protect the oil and gas under said land from drainage from adjacent lands. The term "adjacent lands" refers to any offsetting proration unit, including any proration unit with a common corner to said land. In the event a well or wells producing oil and/or gas in paying quantities should be brought in on adjacent lands and draining said land, Lessee agrees, within one hundred twenty (120) days after such offset well commences actual production, to commence drilling such offset well or wells as are necessary to prevent drainage from said land. In lieu of drilling of such offset to any such oil or gas well, Lessee shall have the option of either releasing this Lease as to the stratigraphic equivalent of the zone or horizon which corresponds with that being produced in the offset well and within a tract of land in as near the form of a square as possible and constituting what would be the proration unit established in conformity with the field rules or spacing laws prescribed or permitted with respect to such offset well, with Lessee retaining all other rights within such tract, or pay Lessor monthly, as compensatory royalty, a sum equal to the payments which would be payable under this Lease on the production from such offset well had same been produced from said land and, as long as Lessee may elect to pay such royalty in lieu of drilling an offset well, Lessee shall have satisfied its offset obligation to Lessor as to such well.
11. Notwithstanding anything contained herein to the contrary, upon the expiration of six (6) months from the end of the primary term hereof, this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil and/or gas in paying quantities together with the proration unit allocated thereto (the size of said proration unit being hereby defined as the number of acres prescribed by the proper governmental authority, as the minimum number of acres required for the production of the maximum allowable from a well in the particular field and from the particular sand or formation involved) as of the date of such termination from the surface down to the depth of 100 feet below the deepest producing depth in each such well capable of producing oil and/or gas in paying quantities. Thereafter, Lessee shall promptly execute and deliver to Lessor a recordable release of this lease as to all lands and depths as to which the lease has so terminated. If after thirty (30) days written notice to Lessee by Lessor requesting such release, Lessee fails to deliver such release to Lessor, then this lease shall automatically terminate as to all of said land. Upon such partial termination each such producing proration unit shall become a separate lease subject to all of the terms and provisions hereof, so that production and/or operations from one such producing proration unit shall not constitute production and/or operations on any other such proration unit. It is agreed that

as long as this lease remains in force as to any part of said land, any portion of the land as to which this lease expires may, nevertheless, be used by Lessee, its successors and assigns, to the extent reasonably necessary for ingress and egress for gathering, transporting, treating, processing, and storing oil and/or gas produced from the land as to which this lease remains in force.

13. Lessee agrees to furnish to Lessor, upon written request and without cost, daily drilling reports, copies of all logs run, surveys made, and any other well information pertaining to wells drilled on said land, or on land pooled therewith, copies of reports and forms filed by Lessee with the state, regulatory agencies in connection with such wells, and copies of all title opinions obtained by Lessee covering said land. Lessor agrees to hold all such information confidential so long as this lease is in force as to any part of said land, or until such earlier time as such information is otherwise generally available to the public.

**
K*
*adding Qes
NM-21-5-1*
Note: Lease No. 6 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

1193/1-13 - Extended
3-28-04
3-28-03
Lease No. 6:
Date: March 28, 2000.
Recorded: Book 1013, page 727, Lea County Records.
Lessor: Bobby V. Bell and wife, Christine Jane Bell.
Land Covered: W/2 SW/4 of Section 26,
containing 80 acres, more or less.
Interest Covered: 1/2 interest.
Primary Term: Three years from date.
Royalties: 3/16 on oil and gas.
Depository: All payments are to be made to the lessor at 2525 Ridgeview Road,
Camden, Arkansas 71701.
Unusual Provisions: None.

Note: Lease No. 7 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

OK
*pooling Qes
NM-21-5-10*
Lease No. 7:

Date: February 1, 2002. *2-1-05*
Recorded: Book 1142, page 787, Lea County Records.
Lessor: Don C. Dennis, individually and as Trustee of the J. M. Dennis Trust.
Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.
Interest Covered: 1/12 interest.
Primary Term: Three years from date.
Royalties: 1/4 on oil and gas.

Depository:

All payments are to be made to the lessor at P. O. Box 1738, Lubbock, Texas 79408.

Unusual Provisions:

12. Notwithstanding anything contained hereinabove to the contrary, it is understood and agreed that at the expiration of the primary term, this lease shall terminate as to all lands covered hereby not included in or otherwise allocated to a "well unit" as hereinafter defined, unless lessee is producing oil, gas or other hydrocarbons from any well on the leased premises, or lands pooled therewith, or is drilling upon said lands across the expiration of the primary term as provided for in the body of this lease, and does not allow more than 180 days to elapse between the completion or abandonment of one well on such land and the commencement of another well thereon until the leased premises have been "fully developed", as hereafter defined. Operations for drilling of the first such development well must be commenced (a) within 180 days after the expiration of the primary term if production is established under this lease prior to the expiration of the primary term, or (b) within 180 days of completion of the well which is being drilled, tested or completed across the expiration of the primary term. Should lessee fail to timely commence a well in accordance with aforesaid 180 days continuous drilling or development prior to the point in time the leased premises have been fully developed then this lease shall terminate as to all lands not included in or otherwise allocated to a well unit. For the purpose thereof, the term "well unit" shall mean the proration or spacing unit created for a well capable of producing oil and/or gas or other hydrocarbons in paying quantities as in accordance with the applicable rules and regulations of the New Mexico Oil Conservation Division or other government authority having jurisdiction, and the term "fully developed" shall mean the point in time when the entirety of the leased premises has been included in a well unit or units as defined. The date of completion of a well shall be the date of a potential test if a producing well and the date of plugging if a dry hole or abandoned well. At the end of the continuous drilling program, if any, this lease will automatically terminate as to all lands covered hereby which have not been so fully developed and as to lands so fully developed shall terminate as to all depths lying more than 100' below the base of the deepest zone or stratigraphic interval producing in a well lessee has theretofore drilled thereon, which zone or stratigraphic interval is to be identified from the electric log or logs of said well.
13. Lessor's royalty shall never bear or be chargeable with, either directly or indirectly, any part of the costs or expenses of producing, gathering, storing, separation, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use.
14. Payment of shut-in gas well royalties will not be permitted to maintain this lease in force for any period longer than two (2) consecutive years, without the written consent of lessor.

Note: Lease No. 8 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 8:

Date:

February 1, 2002.

Recorded:

Book 1140, page 706, Lea County Records.

Lessor: Jessie A. Dennis, sole heir of Barron Dennis.
Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.
Interest Covered: Apparently 1/48 interest. See Requirement No. 12 below.
Primary Term: Three years from date.
Royalties: 1/4 on oil and gas.
Depository: All payments are to be made to the lessor at 231 Middlebury, San Antonio, Texas 78217.
Unusual Provisions: Same as Lease No. 7.

Note: Lease No. 9 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

OK Lease No. 9:

Boeing Ref
NM-21-2-8
Date: February 1, 2002. 2-1-05
Recorded: Book 1139, page 683, Lea County Records.
Lessor: JoAnn DeNitto.
Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.
Interest Covered: 1/48 interest.
Primary Term: Three years from date.
Royalties: 1/4 of oil and gas.
Depository: All payments are to be made to the lessor at 2036 Mustang Drive, Levelland, Texas 79336.
Unusual Provisions: Same as Lease No. 7.

Note: Lease No. 10 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 10:

~~Abstract a Co. records should be to be open~~
Date: April 10, 2000. 4-10-03
Recorded: Book 1023, page 636, Lea County Records.
Lessor: Angela McAlpin, Personal Representative of the Estate of G. T. McAlpin.
Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.
Interest Covered: 1/16 interest.
Primary Term: Three years from date.
Royalties: 1/5 on oil and gas.
Depository: All payments are to be made to the lessor at 665 Lincoln Court, Grand Junction, Colorado 81503.

*Replaced by new
OGL 1232/800
(May 9. 03) NM-21-2-11
Need copy of
"attorney in fact"*

Unusual Provisions: None.

Note: Lease No. 11 is on the same form and contains the same except as follows:

Lease No. 11:

NM-262-7

Date: December 12, 2000.

Recorded: Book 1059, page 438, Lea

Lessor: Lora B. McAlpin.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or

Interest Covered: 1/16 interest.

Primary Term: Three years from date.

Royalties: 1/4 on oil and gas.

Depository: All payments are to be made to the lessor c/o Robert McAlpin, 1817 Welch Ave., Apt. A, College Station, Texas 77840.

Unusual Provisions: None.

*Per David, they
have already signed
a SOA → confirm
with Dale.*

Note: Lease No. 12 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 12:

*Top leased 1-22-03 by David Petroleum Corp
1205/432*

Date: March 16, 2000. *2-16-03*

Recorded: Book 1013, page 729, Lea County Records.

Lessor: Sandra Lee Ponder Joy.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/8 interest.

Primary Term: Three years from date.

Royalties: 22.5% on oil and gas.

Depository: All payments are to be made to the lessor at Rt. 2, Box 1890, Cranfills Gap, Texas 76637.

Unusual Provisions: None.

Note: Lease No. 13 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

Lease No. 13:

*Abstract & Co. Records show open
Grantor (Computer 82 Forward)*

Date: February 16, 2000. *2-16-03*

Recorded: Book 1013, page 155, Lea County Records.

Lessor: Frances J. Freeman, a/k/a Patsy Shipp Freeman, a widow.

*Leased to David Pet
3/16/03*

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/8 interest.

Primary Term: Three years from date.

Royalties: 3/16 on oil and gas.

Depository: All payments are to be made to the lessor at 208 E. Llano, Hobbs,
New Mexico 88240.

Unusual Provisions: None.

Lease No. 14:

~~Algodon & Co. Records show open~~

NM-26-2-4
Date: June 5, 2000. 6-5-03 6-5-06

Recorded: Book 1029, page 292, Lea County Records.

Lessor: Wells Fargo Bank, New Mexico, N.A., successor by merger to
Norwest Bank, New Mexico, N.A., Trustee for the Fredia Irene
Madding Wright Trust.

Lessee: David H. Arrington Oil & Gas, Inc.

Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.

Interest Covered: 1/4 interest.

Primary Term: Three years from date.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after the date on which (1) the gas well is
shut-in or (2) this lease is no longer maintained by other provisions
hereof whichever is the later date lessee may pay as royalty a sum
of \$25.00 for each acre ascribed to the gas well pursuant to
paragraph 7 of the lease provided, however, in no event shall the
amount of such royalty be less than \$50.00 after applying the
proportionate reduction provision contained in the lease. In no
event shall shut-in well payments maintain the lease in force for a
cumulative period exceeding two years.

Depository: All payments are to be made to the lessor at P. O. Box 5825,
Denver, Colorado 80217.

yes
Pooling Provision: Lessee is authorized to pool the lands covered by the lease with
other lands into units for oil not to exceed 40 acres each and for gas
640 acres each.

Lease Form: A special typewritten form (2-22-2000/Cheyenne).

Unusual Provisions: 3. (f) Except as may be permitted for proceeds received
by Lessee under Subparagraphs (c) and (d) above,
all royalties payable to Lessor shall be free, clear
and without deduction for any costs of marketing,
gathering, transporting, separating, processing,
dehydrating, compressing or other costs in making
the oil and gas available and marketable at the place
of sale or use; provided, however, Lessee shall have
free use of oil and gas for lease operations
conducted on the leased premises under the terms

of this lease (but in no event shall such free use of oil and gas extend to fuel gas used in plant operations).

- (h) Lessee agrees that it will not enter into any contract for the sale of oil or gas production from this lease which shall extend more than three (3) years from the effective date of such contract, unless such contract has adequate provisions for the redetermination of price at intervals not less frequently than one year. Upon written request by Lessor, Lessee shall advise Lessor of the price and other pertinent terms under which production from the leased premises is being sold. In the event Lessee enters into a gas purchase contract containing what is commonly referred to as a "take or pay" provision and the purchaser under such gas purchase contract makes any payment or payments of any nature to Lessee for failure to take delivery of a required minimum volume of gas, then Lessor shall be entitled to a fractional share of all such payment or payments so made to Lessee, such fractional share to be the same as provided in Subparagraph (b) above.
- (i) Lessee is unconditionally obligated to Lessor make the payment of royalties hereunder, irrespective of the failure or bankruptcy of any third party oil or gas purchaser and without the necessity of Lessor executing a division order or transfer order. Further, Lessee shall bear full responsibility for payment of all royalties hereunder, irrespective of any split-stream marketing of production. Accounting and payments to Lessor of royalties from the production of oil and gas from any well shall commence and thereafter be paid in full compliance with the applicable provisions of the laws of the State of New Mexico and failure to so comply shall entitle Lessor to the remedies therein provided. If Lessee at any time fails to make royalty payments to Lessor in compliance with the applicable provisions of the laws of the State of New Mexico Lessor may, at Lessor's option, cancel this lease by giving Lessee thirty (30) days advance written notice of such cancellation. Lessee may avoid such cancellation by paying Lessor all sums (including interest) then owed by Lessee prior to the expiration of said thirty (30) day period. Acceptance by Lessor of royalties which are past due shall not act as a waiver or estoppel of Lessor's right to receive or recover any and all interest due thereon under the provisions hereof, unless a written acknowledgment executed by Lessor expressly so provides. Lessee shall pay all costs of litigation, including reasonable attorney's fees, expert witness and consultation fees, incurred by Lessor in connection with any lawsuit in which Lessor is successful in recovering any royalties or interest attributable to Lessee's failure to timely pay royalties as required herein.
- (j) If production is obtained from the leased premises, the minimum royalty payable hereunder after the primary term shall be \$25.00 per acre per annum for each acre ascribed to a well pursuant to Paragraph 7 on January 1st of each year in question. The only credits applicable to this annual minimum royalty are royalties actually paid during the year in question.

Lessee shall pay to Lessor the actual royalties provided for herein as they accrue. Within thirty (30) days after the end of each year, upon written request from Lessor, Lessee shall furnish Lessor with a detailed statement of the actual production and royalties paid for the year in question and any applicable credits. If such statement shows that the minimum royalty provided for herein has not been paid, Lessee shall remit the difference to Lessor with the statement. Should Lessee fail to furnish such statement or fail to pay the minimum payment required within thirty (30) days after written notice by Lessor that such statement has not been received, then Lessee shall have an additional thirty (30) days to cure such default, failing which, this lease shall terminate. Each year shall stand on its own, and Lessee shall not apply any excess paid during one year to a deficiency existing in any other year. The annual periods provided for herein shall begin on January 1st of the year immediately following the year in which production is first obtained from the leased premises. The provision for minimum royalty shall in no way alter, limit, lessen, restrict, change or impair the obligation of Lessee to develop the leased premises reasonably and with due diligence.

6. Notwithstanding anything herein to the contrary, in order to maintain this lease in force and effect after the expiration of the primary term as to the portion of the leased premises not then ascribed to a producing well or shut-in well pursuant to the provisions of this Paragraph, Lessee shall be required to continuously drill wells on said lands (or lands pooled therewith) after the expiration of the primary term so that there is no cessation of more than 180 consecutive days between the completion of one well and the commencement of a subsequent well, thereby providing a continuous drilling schedule after the expiration of the primary term. Commencement of the first well in such continuous drilling program shall occur on (i) the expiration of the primary term or (ii) (180) days after the completion of the last well drilled on said lands within the primary term, whichever is later. If at any time after the expiration of the primary term Lessee fails to maintain said continuous drilling schedule, then this lease shall automatically terminate as to all of the leased premises, SAVE AND EXCEPT the interval from the surface down to depth to which lessee sets production casing in said well located on said unit:
- (a) each well producing oil from said lands in paying quantities, together with minimum acreage allowed by the governmental authority having jurisdiction, and
 - (b) each well producing gas from said lands in paying quantities, or capable of producing gas in paying quantities with all shut-in royalty payments then due having been paid thereon, together with the minimum acreage allowed by the governmental authority having jurisdiction,
 - (c) the acreage around oil wells and gas wells to be a near the form of a square or rectangle as is practicable (but if a rectangle, the longest sides shall be no more than twice the length of the shortest sides) with the well located at a legal spacing distance within its boundaries. UPON THE TERMINATION OF THIS LEASE EXCEPT AS TO

EACH OIL WELL AND EACH GAS WELL AND THE NUMBER OF ACRES HEREINABOVE SPECIFIED AROUND EACH SUCH WELL, EACH SEPARATE TRACT AROUND AN OIL WELL AND EACH SEPARATE TRACT AROUND A GAS WELL SHALL BE TREATED AS A SEPARATE LEASE THAT IS SUBJECT TO THE PROVISIONS HEREOF. In such event, the continuation of this lease as to each such separate lease shall be determined by the application of the provisions hereof to each particular separate lease. Within sixty (60) days after the termination of this lease except as to each oil well and each gas well and the number of acres hereinabove specified around each such well, Lessee shall designate and file of record a plat and legal description of the particular acreage ascribed to each well, furnishing Lessor a copy of such instrument.

9. No assignment of this lease or interest herein may be made without written approval of the Lessor which consent shall not be unreasonably withheld.
14. Lessee shall advise Lessor in writing as to the location of each well drilled upon the premises or on land pooled therewith, on or before seven (7) days after commencement of operations and shall advise Lessor in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Lessor with all well drilling, completion and production data, reports, logs and information when specifically requested by the Lessor.
15. If at the end of the primary term this lease is still in force this lease shall expire as to all that part of said land (as hereinafter described) on which there is not a producing oil or gas well or on which Lessee is not then drilling or reworking a well. At the end of the primary term Lessee shall select and designate a producing unit around and include each producing oil or gas well or drilling or reworking well, the area of such unit to be limited to and conform with the minimum area provided or established directly or indirectly in the applicable rules and regulations of the appropriate governing body of the state in which the subject acreage is located with reference to the spacing of wells or the size of producing units. As to each producing unit so designated, this lease shall continue in force so long as oil or gas is produced in paying quantities therefrom or so long as drilling or reworking operations are prosecuted thereon as provided in paragraph 6 and shall be limited in depth from the surface down to and including fifty (50) feet below the deepest depth drilled and Lessee shall execute a release of this lease as to the balance of the land covered hereby as well as formations at depths below the respective producing units in the absence of field rules promulgated by the appropriate governing body of the state in which such acreage is located. The term producing unit as used herein means the following number of acres depending on the depth to which the well has been drilled and whether the well is an oil or gas well: A. 40 acres for an oil well completed at any depth plus a tolerance of 10% thereof. B. (I) 80 acres for a gas well completed at a depth of less than 2000 feet subsurface plus a tolerance of 10% thereof. (II) 160 acres for a gas well completed at a depth of 2001 feet subsurface to 6000 feet subsurface plus a tolerance of 10% thereof. (III) 320 acres for a gas well completed at a depth of 6001 feet subsurface to 9000 feet subsurface plus a

tolerance of 10% thereof. (IV) 640 acres for a gas well completed at a depth greater than 9001 feet subsurface plus a tolerance of 10% thereof. If a portion of Lessee's rights terminate as provided in this paragraph 15 then Lessee shall designate in writing the acreage it is allowed to retain around each oil well and each gas well and such written designation shall be filed for record in the county in which such acreage is located. The provisions of this paragraph 15 shall not have the effect of relieving Lessee of its obligations to develop the lease with reasonable diligence after oil or gas is first discovered in paying quantities.

19. Wells Fargo Bank New Mexico, N.A. which executes this Lease in its fiduciary capacity as Trustee and not in its corporate capacity makes no warranties or representations of title either express or implied, and any liability asserted against the Trustee due to its execution of this Lease shall be satisfied solely from assets held by them as Trustee of the Fredia Irene Madding Wright Trust at the time of such assertion.

Note: Lease No. 15 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

OK Lease No. 15:

Pooling Res
NM-21-2-6
Date: January 5, 2001. 1-5-04
Recorded: Book 1059, page 436, Lea County Records.
Lessor: Charlsie E. Savage.
Land Covered: SE/4 SW/4 of Section 26.
Interest Covered: Apparently 1/16 interest. See Requirement No. 3 below.
Primary Term: Three years from date.
Royalties: 1/4 on oil and gas.
Depository: All payments are to be made to the lessor at P. O. Box 7, Deming, New Mexico 88031.
Unusual Provisions: None.

Note: Lease No. 16 is on the same form and contains the same terms and provisions as Lease No. 1, except as follows:

OK Lease No. 16:

Pooling Res
NM-21-2-5
Date: January 5, 2001. 1-5-04
Recorded: Book 1061, page 451, Lea County Records.
Lessor: G. G. Gore.
Land Covered: SE/4 SW/4 of Section 26,
containing 40 acres, more or less.
Interest Covered: Apparently 1/16 interest. See Requirement No. 3 below.
Primary Term: Three years from date.
Royalties: 1/4 on oil and gas.

Depository: All payments are to be made to the lessor at 2020 S. Columbus Road, Deming, New Mexico 88030.

Unusual Provisions: None.

ASSIGNMENTS

1. By Assignment dated October 1, 2001, recorded in Book 1111, page 205, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned a 5% overriding royalty interest in Lease No. 10 to Dale Douglas 1%, Alpine Petroleum, Inc. 1%, John R. McRae 1% and The Monument Abo Company 2%. The overriding royalty interest is subject to proportionate reduction.
2. By Assignment dated October 1, 2001, recorded in Book 1111, page 207, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned a 2.5% overriding royalty interest in Lease No. 12 to Dale Douglas as to .833333%, Alpine Petroleum, Inc. .833333% and John R. McRae .833334%. The overriding royalty interest is subject to proportionate reduction.
3. By Assignment dated October 1, 2001, recorded in Book 1111, page 209, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned a 6.25% overriding royalty interest in Lease Nos. 6 and 13 to Dale Douglas 1%, Alpine Petroleum, Inc. 1%, John R. McRae 1% and The Monument Abo Company 3.25%. The overriding royalty interest is subject to proportionate reduction.
4. By Assignment dated October 2, 2001, recorded in Book 1120, page 835, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned to Devon SFS Operating, Inc. 25% of the assignor's interest in Lease Nos. 1 - 6 and 10 - 16. In this assignment the assignor reserved an overriding royalty interest equal to the difference between existing burdens and 25% of production subject to proportionate reduction. This assignment is subject to that certain Geophysical Exploration Agreement, West Salty Dog Project, dated December 15, 2000 between the assignor and assignee.
5. By Assignment dated effective May 1, 2002, recorded in Book 1151, page 375, Lea County Records, David H. Arrington Oil & Gas, Inc. assigned to Chesapeake Exploration Limited Partnership a 25% leasehold interest in Lease Nos. 1 - 16. In this assignment the assignor reserved an overriding royalty interest equal to the difference between 25% of production and existing lease burdens, subject to proportionate reduction. This assignment is subject to that certain Participation Agreement, West Salty Dog Prospect, dated effective May 1, 2002 between David H. Arrington Oil & Gas, Inc. and Chesapeake Exploration Limited Partnership and that certain Operating Agreement attached as Exhibit "F" to the Geophysical Exploration Agreement dated December 15, 2000 between assignor and Devon SFS Operating, Inc.

PATENT INFORMATION

Captioned land was patented by the United States of America to Cory L. Farrow by Patent No. 703578 dated August 26, 1919, recorded in Book 1, page 408, Patent Records.

EASEMENTS

Not covered by this title opinion.

ENCUMBRANCES

None.

TAXES

Taxes are not assessed against severed mineral interests in New Mexico.

TITLE REQUIREMENTS

1.

At one time Edith M. Crabb, a widow, owned a one-half mineral interest in the NE/4 SW/4 of Section 26. This woman is deceased and the materials examined reflect that her Will was admitted to probate in Cause No. 8738 in the County Court of Midland County, Texas. By Distribution Deed dated January 1, 1991, recorded in Book 471, page 33, Deed Records, Billy Easley purporting to be the Independent Executor of the her estate conveyed the one-half mineral interest to himself and Gay Crabb Karger in equal shares. In this same instrument, Billy Easley and Gay Crabb Karger conveyed the interest

to NCNB Texas National Bank, Trustee. We have not examined the probate proceedings conducted for the Estate of Edith M. Crabb, and it does not appear that any ancillary proceedings have been conducted for her estate in Lea County, New Mexico.

REQUIREMENT A: Submit for examination an authenticated transcript of the probate proceedings conducted for the estate of Edith M. Crabb in Cause No. 8738 in the County Court of Midland County, Texas.

REQUIREMENT B: An ancillary probate proceeding should be conducted for the estate of Edith M. Crabb in Lea County, New Mexico.

2.

At one time Caroline C. Dewey owned as her separate property a one-half mineral interest in the W/2 SW/4 of Section 26. By Deed dated November 26, 1984, recorded in Book 416, page 11, Deed Records, Caroline C. Dewey, a widow, conveyed to Caroline Andrea Dewey Chew, purportedly as her sole and separate property, the one-half mineral interest. Because consideration was recited in this instrument, a presumption arises that the interest acquired by Caroline Chew was the community property of her and her spouse, if any. Any subsequent conveyance without the joinder of the spouse is void. In this connection we know that by a Deed dated April 7, 1986, recorded in Book 426, page 608, Deed Records, Caroline Andrea Dewey Chew, without the joinder of her spouse, if any, conveyed to H-D Mineral Properties the one-half mineral interest. If Caroline Chew was married on November 26, 1984, which is the date she acquired the mineral interest from Caroline Dewey, the interest acquired would be presumed to be the community property of her and her spouse.

REQUIREMENT: Submit for examination an Affidavit of Marital History regarding Caroline Andrea Dewey Chew. We reserve possible further requirement.

3. *Successor*

On April 24, 1950, W. E. Gore and wife, Clarabel Gore acquired a 1/4 mineral interest in the SE/4 SW/4 of Section 26. Apparently, W. E. Gore predeceased his wife because by Mineral Deed dated October 30, 1995, recorded in Book 516, page 746, Deed Records, Clarabel P. Gore, a widow, conveyed to Charlsie E. Savage and G. G. Gore in equal shares all of her interest in the SE/4 SW/4 of Section 26. The materials examined do not include any probate proceedings conducted for the Estate of W. E. Gore.

REQUIREMENT: Submit for examination a certified transcript of any probate proceedings conducted for the Estate of W. E. Gore in New Mexico. Because of this missing probate, we have credited Charlsie E. Savage and G. G. Gore as each owning a 1/16 mineral interest in the SE/4 SW/4 of Section 26, and we have treated the 1/8 community property interest which passed through the Estate of W. E. Gore as being unleased.

4.

At one time Frances J. Freeman, a/k/a Patsy Shipp Freeman, owned a 1/8 mineral interest in the SE/4 SW/4 of Section 26. This woman died on January 20, 2001 and probate proceedings were conducted for her estate in Cause No. 2001-82 in the District Court of Lea County, New Mexico. Pursuant to the terms of her Will, she devised all of the remainder of her estate which would include her interest in captioned land to Western Commerce Bank, Trustee u/t/a known as the Frances J. Freeman Revocable Trust Agreement dated February 8, 1983 as amended by its first amendment dated July 1, 1987, as amended by its second amendment dated April 17, 1990 and as further amended and restated by the third amendment dated September 1, 1992. Western Commerce Bank was appointed as Personal Representative of the Estate. By Deed of Distribution dated February 27, 2002, recorded in Book 1132, page 739, Lea County Records, Western Commerce Bank as Personal Representative of the Estate conveyed to itself as Trustee of the Frances J. Freeman Revocable Trust dated February 8, 1983 as amended all of the interest of the decedent at the time of her death in any real property in the State of New Mexico. Her interest in captioned land was not specifically described.

The materials examined also include a Mineral Deed dated June 2, 1993, recorded on March 23, 2001 in Book 1069, page 781, Lea County Records, whereby Frances J. Freeman conveyed to Western Commerce Bank, Trustee of the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992, all of her interest in the SE/4 SW/4 of Section 26. We note that this mineral deed was recorded after the death of the grantor.

Based upon the materials examined, we do not know if the Frances J. Freeman Revocable Trust dated February 8, 1983 as amended is one and the same trust as the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992. We note that Lease No. 13 which covers this interest was

executed by Frances J. Freeman prior to the time that the deed to Western Commerce Bank as Trustee was recorded. Accordingly, the lease is valid.

REQUIREMENT: In the event of production, you should investigate this matter to determine whether the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992 is one and the same as the Frances J. Freeman Revocable Trust dated February 8, 1983 as amended. We reserve possible further requirement.

5.

At one time G. T. McAlpin owned a 1/16 mineral interest in the SE/4 SW/4 of Section 26 as his separate property. According to a Notice of Probate recorded in Book 834, page 581, Lea County Records, this man died on September 26, 1996 and probate proceedings were conducted for his estate in Cause No. RA 97-285 (PB) in the District Court of Rio Arriba County, New Mexico. The Personal Representative is Angela McAlpin. We have not examined the probate proceedings conducted for this man's estate.

REQUIREMENT: Submit for examination a certified transcript of the probate proceedings conducted for the Estate of G. T. McAlpin in the District Court of Rio Arriba County, New Mexico.

6.

Lease No. 3 was executed by Steven M. Wyman and Frederick Winston on behalf of Winston Partners, Ltd. The copy of the Articles of Limited Partnership which we have examined, recorded in Book 384, page 152, Miscellaneous Records, show that Elizabeth W. Wyman, James T. Wyman and Frederick Winston are the General Partners, and it requires that any two of the General Partners may act to bind the partnership. We do not know how Steven M. Wyman became one of the General Partners.

✓ **REQUIREMENT:** Submit for examination the document whereby Steven M. Wyman became a General Partner of Winston Partners, Ltd. such that we may verify that the lease was executed properly.

7.

By three separate conveyances, one dated January 1, 1991, recorded in Book 471, page 33, Deed Records and the other two dated November 5, 1991, recorded in Book 478, pages 477 and 480, Deed Records, NCNB Texas National Bank, Trustee, became vested with all of the mineral interest in the NE/4 SW/4 of Section 26. Lease No. 4 was executed by Bank of America, N.A., Trustee of the Gay Crabb Karger, Trust, the Billy Easley Trust and the Lawrence E. Karger Trust. We do not know how Bank of America, N.A. succeeded to NCNB Texas National Bank as Trustee. In addition, we have not examined the Trust Agreements for the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust.

✓ **REQUIREMENT A:** Submit for examination the document whereby Bank of America, N.A. succeeded NCNB Texas National Bank as Trustee.

REQUIREMENT B: Submit for examination a copy of the trust agreements for the Gay Crabb Karger Trust, the Billy Easley Trust and the Lawrence E. Karger Trust.

8.

At one time, Lawrence E. Karger and wife, Gay Crabb Karger, owned a one-half mineral interest in the NE/4 SW/4 of Section 26. By instrument dated December 12, 1988, recorded in Book 449, page 178, Deed Records, these people conveyed the interest to themselves as Trustees under Declaration of Trust dated August 29, 1988 for the benefit of the Karger family. Subsequently, by two separate Deeds, both dated November 5, 1991, Gay Crabb Karger and Lawrence E. Karger, Trustees u/t/a dated August 29, 1988, conveyed the interest to themselves individually. We have not examined the Trust Agreement dated August 29, 1988.

REQUIREMENT: Submit for examination the Trust Agreement dated August 29, 1988 for the benefit of the Karger family.

9.

Lease No. 4 from Bank of America, N.A. is for a primary term of three years from date and as long thereafter as oil and gas or either of them is produced in paying quantities from said land or lands with which said land is pooled hereunder and the royalties are paid as provided. In addition, no assignment

of the lease or interest therein may be made without written approval of the lessor, such approval shall not be unreasonably withheld.

REQUIREMENT A: Advisory as to the unusual provisions contained in Lease No. 4.

X **REQUIREMENT B:** Submit for examination the written consent of the lessor of Lease No. 4 to Assignment Nos. 4 and 5 above.

10.

Lease No. 5 was executed by F. Ferrell Davis, General Partner of H-D Mineral Properties, a partnership. We have not examined the Partnership Agreement and cannot advise you as to the authority of F. Ferrell Davis to execute the lease.

✓ **REQUIREMENT:** Submit for examination a copy of the Partnership Agreement for H-D Mineral Properties.

11.

Lease No. 7 was executed by Don C. Dennis, individually and as Trustee of the J. M. Dennis Trust; however, it was acknowledged by Don D. Dennis, rather than Don C. Dennis.

✓ **REQUIREMENT:** Don C. Dennis, individually and as Trustee of the J. M. Dennis Trust should ratify Lease No. 7 with the ratification being acknowledged by Don C. Dennis. The properly executed and acknowledged ratification should be recorded in Lea County, New Mexico.

12.

At one time, Barron Duff Dennis owned a 1/48 mineral interest in the SE/4 SW/4 of Section 26. Lease No. 8 was executed by Jessie A. Dennis as sole heir of Barron Dennis. We have not examined any probate proceedings conducted for the Estate of Barron Duff Dennis.

✓ **REQUIREMENT:** Submit for examination a certified transcript of the probate proceedings conducted for Barron Duff Dennis in Lea County, New Mexico. We reserve possible further requirement.

13.

By Mineral Deed dated July 10, 1967 and recorded in Book 306, page 98, Deed Records, Fredia Irene Madding, formerly Fredia Rayl Wright, conveyed to New Mexico Bank and Trust Company, Trustee pursuant to the provisions of that certain Trust Agreement known as the Fredia Irene Madding Income Trust dated July 10, 1967, a 1/4 mineral interest in the SE/4 SW/4 of Section 26. A subsequent oil and gas lease purporting to cover this interest dated March 20, 1985, recorded in Book 388, page 203, Oil and Gas Records, is from First Interstate Bank of Lea County, Trustee of the Freda Irene Madding Wright Trust, and Lease No. 14 is from Wells Fargo Bank New Mexico, N.A., successor by merger to Norwest Bank New Mexico, N.A., Trustee for Fredia Irene Madding Wright Trust.

There are several problems with this chain of title:

- ✓ 1. We do not know if the Fredia Irene Madding Wright Trust is one and the same trust as the Fredia Irene Madding Income Trust dated July 10, 1967.
- ✓ 2. We do not know how the succession of interest of the trustee from New Mexico Bank and Trust Company to First Interstate Bank of Lea County to Norwest Bank New Mexico, N.A. and finally to Wells Fargo Bank New Mexico, N.A. occurred.

✓ **REQUIREMENT A:** If in fact Wells Fargo Bank New Mexico, N.A. is the Successor Trustee of the Fredia Irene Madding Income Trust dated July 10, 1967, Lease No. 14 should be ratified by the Bank as Trustee of such trust and the ratification should be recorded in Lea County, New Mexico.

✓ **REQUIREMENT B:** If Wells Fargo Bank New Mexico, N.A. is not the Successor Trustee of the Fredia Irene Madding Income Trust dated July 10, 1967, you should investigate this matter to determine the identity of the successor trustee and acquire a ratification of the lease from the successor trustee.

✓ **REQUIREMENT C:** If in fact Wells Fargo Bank New Mexico, N.A. is the Successor Trustee of the Fredia Irene Madding Income Trust dated July 10, 1967, submit for examination the documents reflecting the succession of interest from the New Mexico Bank and Trust Company, Trustee of the Trust, to First Interstate Bank of Lea County, as Trustee, to Norwest Bank New Mexico, N.A., Trustee, and finally to Wells Fargo Bank New Mexico, N.A., Trustee. These documents should be recorded in Lea County, New Mexico.

REQUIREMENT D: Submit for examination a copy of the Trust Agreement for the Fredia Irene Madding Income Trust dated July 10, 1967.

14.

We call to your attention the fact that Lease No. 14 provides for minimum royalties and also states that no assignment of the lease or interest in the lease may be made without approval of the lessor which consent shall not be unreasonably withheld. In addition, this lease contains numerous other unusual provisions which we have set forth above.

REQUIREMENT A: Advisory as to the unusual provisions contained in Lease No. 14.

X **REQUIREMENT B:** Submit for examination the written consent of the lessor of Lease No. 14 to Assignment Nos. 4 and 5.

15.

By Mineral Deed dated October 30, 1995, recorded in Book 516, page 746, Deed Records, Clarabel P. Gore, a widow, conveyed to Charlsie E. Savage and G. G. Gore, in equal shares, all of her interest in the SE/4 SW/4 of Section 26. In this deed consideration was recited. For this reason the interest acquired by the grantees is presumed to be the community property of them and their respective spouses, if they are married. Lease Nos. 15 and 16 were executed by Charlsie E. Savage and G. G. Gore, respectively, each purporting to act in their sole and separate property. However, due to the fact that consideration was recited in the deed whereby they acquired their interests, the community property assumption arises. Any subsequent conveyance of an interest in real property, including a lease thereof, without the joinder of the spouse is void but may be ratified.

✓ **REQUIREMENT:** Submit for examination an Affidavit of Marital History regarding Charlsie E. Savage and G. G. Gore. We reserve possible further requirement.

16.

As noted above, captioned land is made up of five separate tracts. The oil and gas leases which you have acquired all contain a pooling provision.

✓ **REQUIREMENT:** In the event that you intend to drill a well on captioned land which requires pooling, it will be necessary for you to file a pooling designation with the County Clerk of Lea County, New Mexico designating your pooled unit prior to the earliest expiration date of any lease covering any part of your pooled unit.

17.

The materials examined include the oil and gas leases described in the attached Exhibit "A" the primary terms of which have long since expired but the leases have not been released of record.

? **REQUIREMENT:** Submit for examination a release of the leases described in the attached Exhibit "A" from the record title owners thereof or, in the alternative, submit for examination an Affidavit of Non-Development and Non-Production which shows that the leases have expired due to lack of production or operations on the lands covered by the leases or lands pooled therewith.

18.

Assignment No. 4 above is subject to a Geophysical Exploration Agreement, West Salty Dog Project, dated December 15, 2000, between the assignor and assignee and Assignment No. 5 above is subject to a Participation Agreement, West Salty Dog Prospect, dated effective May 1, 2002, between the assignor and assignee.

We have not examined either of the agreements described in these assignments.

✓ REQUIREMENT: Submit for examination a copy of the agreements described in Assignment Nos. 4 and 5.

19.

We call to your attention the unusual provisions contained in the Leases described above.

REQUIREMENT: Advisory.

20.

This opinion cannot cover such matters as area, boundaries, location on the ground, or other matters which can be determined only by an actual ground survey.

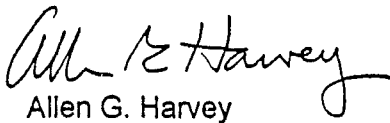
REQUIREMENT: Prior to commencing drilling operations on captioned land, you should have the location of the well which you intend to drill staked by a competent surveyor to ensure that the well you propose to drill will be properly located on captioned land.

COMMENT

We do not cover questions of boundary or area, inchoate liens, unrecorded instruments or production purchase contracts, prior dedication of gas reserves, errors or omissions of abstractors or public officials, compliance with or enforcement of any regulations or orders of governmental authorities having jurisdiction, the existence on the premises of contaminants or hazardous materials, naturally occurring or otherwise, environmental matters or any other matters not covered by the materials examined or which could be determined only by an investigation upon the ground or by a survey of the land. This opinion is rendered solely and exclusively for the use and benefit of David H. Arrington Oil & Gas, Inc. and for no other party and may be relied upon only by it.

Respectfully submitted,

STUBBEMAN, McRAE, SEALY,
LAUGHLIN & BROWDER, INC.

By: 
Allen G. Harvey

AGH:elt

The abstracts examined
are returned herewith.

EXHIBIT "A"

Tract 1 - N/2 SE/4 of Section 26:

1. Dated August 7, 1967, recorded in Book 253, page 454, Oil and Gas Records, from June D. Speight, as lessor, to Union Oil Company of California, as lessee, for a primary term of five years from date.
2. Dated August 14, 1973, recorded in Book 286, page 678, Oil and Gas Records, from June D. Speight, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
3. Dated March 14, 1978, recorded in Book 313, page 97, Oil and Gas Records, from June D. Speight, as lessor, to Samedan Oil Corporation, for a primary term of three years from August 14, 1978.
4. Dated March 22, 1982, recorded in Book 349, page 387, Oil and Gas Records, from June Danglade Speight, as lessor, to Abernathy Exploration Co., for a primary term of three years from date.

Note: This lease is owned of record by Abernathy Exploration Co., Bobby F. Abernathy, Daniel G. Abernathy, Business Men's Assurance Company of America, Gerson Bakar, FBC Petroleum Investment Partnership No. 1, First National Bank of Fort Worth, Trustee, Preston Gerron, William Grant, George S. Kaufman, Edward J. Ledder, and Alfred Wilsey.

5. Dated October 25, 1994, recorded in Book 508, page 258, Oil and Gas Records, from June Danglade Speight, as lessor, to David Petroleum Corp., as lessee, for a primary term of three years from date. This lease is owned of record by Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation, David Petroleum Corp. and Nearburg Exploration Company, LLC.

Tract 2 - N/2 SE/4 of Section 26:

6. Dated May 19, 1965, recorded in Book 238, page 264, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
7. Dated May 19, 1965, recorded in Book 238, page 282, Oil and Gas Records, from Donald Winston, Trustee of the Francisca S. Winston Trust, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.

Note: The two foregoing leases are owned of record by Union Oil Company of California.

8. Dated May 20, 1973, recorded in Book 286, page 659, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
9. Dated May 20, 1973, recorded in Book 286, page 661, Oil and Gas Records, from Donald Winston, Trustee u/t dated December 31, 1941, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
10. Dated March 16, 1978, recorded in Book 309, page 62, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
11. Dated March 16, 1978, recorded in Book 309, page 349, Oil and Gas Records, from Donald Winston, Trustee u/t dated December 31, 1941, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

Note: The foregoing two leases are owned of record by Bass Enterprises Production Co., Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

12. Dated October 28, 1994, recorded in Book 507, page 566, Oil and Gas Records, from Marshall & Winston, Inc., as lessor, to David Petroleum Corporation, as lessee, for a primary term of three years from date.

13. Dated October 28, 1994, recorded in Book 508, page 253, Oil and Gas Records, from Winston Partners, Ltd., as lessor, to David Petroleum Corporation, as lessee, for a primary term of three years from date.

Note: The foregoing two leases are owned of record by David Petroleum Corporation, Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.

Tract 3 - NE/4 SW/4 of Section 26:

14. Dated April 26, 1965, recorded in Book 238, page 276, Oil and Gas Records, from J. E. Crabb and wife, Ellen Crabb, as lessors, to A. C. Holder, as lessee, for a primary term of five years from date. This lease is owned of record by Union Oil Company of California.
15. Dated August 23, 1977, recorded in Book 307, page 141, Oil and Gas Records, from Edith Crabb, Independent Executrix of the Estate of R. C. Crabb, Jr., as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
16. Dated July 12, 1978, recorded in Book 312, page 282, Oil and Gas Records, from First National Bank of Midland, Agent and Attorney-in-Fact for John Ed Crabb, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

Note: The foregoing two leases are owned of record by Bass Enterprises Production Company, Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

17. Dated April 10, 1985, recorded in Book 384, page 856, Oil and Gas Records, from Lidia Crabb, Trustee of the John E. Crabb Trust, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
18. Dated April 10, 1985, recorded in Book 384, page 856 and in Book 388, page 228, Oil and Gas Records, from Lidia Crabb, Trustee of the John E. Crabb Trust, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
19. Dated May 2, 1985, recorded in Book 388, page 225, Oil and Gas Records, from Edith M. Crabb, a widow, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.

Note: The foregoing three leases are owned of record by Horizon Exploration Company.

20. Dated January 19, 1994, recorded in Book 498, page 446, Oil and Gas Records, from Nations Bank of Texas, N.A., Trustee of the Gay Crabb Karger Trust, et al., as lessors, to Randy V. Watts, as lessee, for a primary term of three years from date. This lease is owned of record by David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.
21. Dated January 20, 1997, recorded in Book 782, page 204, Lea County Records, from Nations Bank of Texas, N.A., Trustee of the Gay Crabb Karger Trust, et al., as lessors, to Randy V. Watts, as lessee, for a primary term of three years from date.

Tract 4 - W/2 SW/4 of Section 26:

22. Dated May 17, 1965, recorded in Book 238, page 274, Oil and Gas Records, from Caroline C. Dewey, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
23. Dated May 17, 1965, recorded in Book 238, page 280, Oil and Gas Records, from E. A. Wahlstrom, et ux, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.

Note: The foregoing two leases are owned of record by Union Oil Company of California.

24. Dated December 22, 1972, recorded in Book 286, page 637, Oil and Gas Records, from Caroline C. Dewey, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
25. Dated January 10, 1973, recorded in Book 286, page 635, Oil and Gas Records, from Roberta Jane Wahlstrom, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

26. Dated September 6, 1977, recorded in Book 305, page 317, Oil and Gas Records, from Caroline C. Dewey, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from December 22, 1977.
27. Dated August 23, 1977, recorded in Book 305, page 319, Oil and Gas Records, from Roberta Jane Wahlstrom, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from January 10, 1978.

Note: The foregoing two leases are owned of record by Bass Enterprises Production Company, Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

28. Dated April 18, 1985, recorded in Book 385, page 144, Oil and Gas Records, from Caroline Dewey Chew, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
29. Dated April 18, 1985, recorded in Book 385, page 144 and re-recorded in Book 388, page 220, Oil and Gas Records, from Caroline Dewey Chew, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
30. Dated March 18, 1985, recorded in Book 388, page 223, Oil and Gas Records, from Christine Jane Bell, as lessor, to Robert P. Byron, as lessee, for a primary term of five years from date.

Note: The foregoing three leases are owned of record by Horizon Exploration Company.

31. Dated December 14, 1993, recorded in Book 498, page 486, Oil and Gas Records, from H-D Mineral Properties to Randy V. Watts originally for a primary term of three years from date but extended to be for a primary term of six years from date.
32. Dated July 27, 1993, recorded in Book 498, page 492, Oil and Gas Records, from Christine Jane Bell, et vir, as lessors, to Randy V. Watts, as lessee, for a primary term of five years from date.

Note: The two foregoing leases are owned of record by David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.

Tract 5 - SE/4 SW/4 of Section 26:

33. Dated April 26, 1965, recorded in Book 238, page 266, Oil and Gas Records, from Barry R. Freeman, et ux, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
34. Dated April 26, 1965, recorded in Book 238, page 268, Oil and Gas Records, from Lora B. McAlpin, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
35. Dated May 17, 1965, recorded in Book 238, page 270, Oil and Gas Records, from W. E. Gore, et ux, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
36. Dated April 26, 1965, recorded in Book 238, page 272, Oil and Gas Records, from Fredia Wright Watson Madding, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.
37. Dated April 26, 1965, recorded in Book 238, page 278, Oil and Gas Records, from Frankie Monteith, as lessor, to A. C. Holder, as lessee, for a primary term of five years from date.

Note: The foregoing five leases are owned of record by Union Oil Company of California.

38. Dated January 2, 1973, recorded in Book 286, page 639, Oil and Gas Records, from Frankie Monteith, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
39. Dated January 2, 1973, recorded in Book 286, page 641, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
40. Dated January 29, 1973, recorded in Book 286, page 643, Oil and Gas Records, from New Mexico Bank and Trust Company, Trustee for Freda Wright Watson Madding, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.

41. Dated February 6, 1973, recorded in Book 286, page 645, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
42. Dated January 25, 1973, recorded in Book 286 page 647, Oil and Gas Records, from Joe Dennis, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
43. Dated February 13, 1974, recorded in Book 286, page 649, Oil and Gas Records, from Frances J. Freeman, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from date.
44. Dated September 6, 1977, recorded in Book 305, page 321, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from February 6, 1978.
45. Dated October 24, 1977, recorded in Book 306, page 541, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of three years from January 2, 1978.
46. Dated October 24, 1977, recorded in Book 307, page 84, Oil and Gas Records, from New Mexico Bank and Trust Company, as Trustee for Freda Wright Watson Madding, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of three years from January 29, 1978.
47. Dated November 29, 1977, recorded in Book 307, page 671, Oil and Gas Records, from Frankie Monteith, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from January 2, 1978.
48. Dated July 31, 1978, recorded in Book 312, page 745, Oil and Gas Records, from Joe Dennis, et ux, as lessors, to Samedan Oil Corporation, as lessee, for a primary term of three years from date.
49. Dated September 22, 1978, recorded in Book 313, page 661, Oil and Gas Records, from Frances J. Freeman, as lessor, to Samedan Oil Corporation, as lessee, for a primary term of five years from February 13, 1979.
50. Dated December 23, 1980, recorded in Book 334, page 113, Oil and Gas Records, from New Mexico Bank and Trust Company, Trustee for Freda Wright Watson Madding Trust, as lessor, to Lee House, as lessee, for a primary term of three years from January 29, 1981.
51. Dated December 19, 1980, recorded in Book 334, page 115, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Lee House, as lessee, for a primary term of three years from January 2, 1981.

Note: The foregoing eight leases are owned of record by Bass Enterprises Production Company, Perry R. Bass, Nancy Lee Bass, Samedan Oil Corporation and Abernathy Exploration Co.

52. Dated March 20, 1985, recorded in Book 388, page 203, Oil and Gas Records, from First Interstate Bank of Lea County, Trustee of the Freda Irene Madding Wright Trust, as lessor, to Michael S. Richardson, as lessee, for a primary term of three years from date.
53. Dated March 27, 1985, recorded in Book 388, page 207, Oil and Gas Records, from Frances J. Freeman, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
54. Dated March 18, 1985, recorded in Book 388, page 210, Oil and Gas Records, from Sandra Lee Ponder Joy, as lessor, to Robert P. Byron, as lessee, for a primary term of five years from date.
55. Dated April 8, 1985, recorded in Book 388, page 213, Oil and Gas Records, from Don Dennis, Executor, as lessor, to Robert P. Byron, as lessee, for a primary term of three years from date.
56. Dated March 18, 1985, recorded in Book 388, page 218, Oil and Gas Records, from W. E. Gore, et ux, as lessors, to Robert P. Byron, as lessee, for a primary term of five years from date.

Note: The foregoing five leases are owned of record by Horizon Exploration Company.

57. Dated April 28, 1993, recorded in Book 498, page 484, Oil and Gas Records, from Clarabel Gore, as lessor, to Randy V. Watts, as lessee, for a primary term of five years from date.

58. Dated May 6, 1993, recorded in Book 498, page 488, Oil and Gas Records, from Frances J. Freeman, as lessor, to Randy V. Watts, as lessee, for a primary term of three years from date.
59. Dated December 10, 1993, recorded in Book 498, page 490, Oil and Gas Records, from United New Mexico Trust Company, Trustee of the Fredia Madding Wright Trust, as lessor, to Randy V. Watts, as lessee, originally for a primary term of three years from date but extended to be for a primary term of four years from date.
60. Dated December 27, 1993, recorded in Book 498, page 482, Oil and Gas Records, from Sandra Lee Ponder Joy, as lessor, to Randy V. Watts, as lessee, for a primary term of three years from date.
61. Dated December 6, 1994, recorded in Book 509, page 349, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Randy V. Watts, as lessee, for a primary term of one year from date.
62. Dated December 6, 1994, recorded in Book 509, page 280, Oil and Gas Records, from G. T. McAlpin, et ux, as lessors, to Randy V. Watts, as lessee, for a primary term of one year from date.

Note: The foregoing six leases are owned of record by David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc., Permian Exploration Corporation and Nearburg Exploration Company, LLC.

63. Dated January 31, 1995, recorded in Book 511, page 694, Oil and Gas Records, from Don C. Dennis, et al., as lessors, to Randy V. Watts, as lessee, for a primary term of two years from date.
64. Dated February 14, 1995, recorded in Book 511, page 700, Oil and Gas Records, from Jessie A. Dennis, as lessor, to Randy V. Watts, as lessee, for a primary term of two years from date.

Note: The foregoing two leases are owned of record by Randy V. Watts and wife, J. Michelle Watts and/or David Petroleum Corp., Santa Fe Energy Resources, Inc., McMillan Production Company, Inc. and Permian Exploration Corporation.

65. Dated October 24, 1995, effective December 7, 1995, recorded in Book 524, page 336, Oil and Gas Records, from Lora B. McAlpin, as lessor, to Randy V. Watts, as lessee, originally for a primary term of one year from December 7, 1995 but extended to be for a primary term of two years from said date.
66. Dated October 24, 1995, effective December 7, 1995, recorded in Book 526, page 558, Oil and Gas Records, from G. T. McAlpin, et ux, as lessors, to Randy V. Watts, as lessee, originally for a primary term of one year from December 7, 1995 but extended to be for a primary term of two years from said date.
67. Dated April 16, 1997, recorded in Book 798, page 511, Oil and Gas Records, from Jessie A. Dennis, as lessor, to Randy V. Watts, as lessee, for a primary term of two years from date.

Note: The foregoing three leases are owned of record by Randy V. Watts and wife, J. Michelle Watts, but it appears that David Petroleum Corp. may claim an interest.

STUBBEMAN, McRAE, SEALY, LAUGHLIN & BROWDER, INC.

ATTORNEYS AT LAW

MIDLAND, TEXAS

FASKEN CENTER • TOWER TWO
550 WEST TEXAS AVENUE, SUITE 800 • 79701
P.O. BOX 1540 • 79702
432/682-1818
FACSIMILE 432/682-1351
FACSIMILE 432/682-4884

ALLEN G. HARVEY
LICENSED IN TEXAS AND NEW MEXICO
DIRECT DIAL 688-0290
aharvey@stubbemanlawfirm.com

August 15, 2003

SUPPLEMENTAL DRILLING TITLE OPINION

David H. Arrington Oil & Gas, Inc.
214 W. Texas, Suite 400
P. O. Box 2071
Midland, TX 79702

Attn: Mr. David H. Arrington

Re: **June Danglade Speight, et al. oil and gas leases covering the following land in LEA COUNTY, NEW MEXICO:**

Township 15 South, Range 34 East, N.M.P.M.

Section 26: S/2,

containing 320 acres, more or less.

*W. Satty Dog
Green Eyed Squelch Worm*

Gentlemen:

Reference is made to our Original Drilling Title Opinion dated January 6, 2003 addressed to you covering captioned land based upon an abstract covering captioned land for the period from inception of the records to November 13, 2002 at 7:00 a.m. We have now examined the records of Lea County, New Mexico pertaining to captioned land for the period from November 13, 2002 at 7:00 a.m. to July 31, 2003 at 7:00 a.m. based upon the indices and copy of the records maintained by Caprock Title Company, Inc.

Based upon examination of the foregoing and subject to the title requirements contained in our Original Drilling Title Opinion, which remain unsatisfied, and the additional title requirements hereinafter made, we find that as of July 31, 2003 at 7:00 a.m., title to captioned land is vested as follows:

FEE TITLE

Surface Estate:

Not reported; however, the surface and mineral estates were completely severed on July 28, 1937.

Mineral Estate:

S/2 SE/4 of Section 26:

June Danglade Speight, as her separate property Lease No. 1 All

N/2 SE/4 of Section 26:

Marshall & Winston, Inc. Lease No. 2 3/4

Winston Partners, Ltd. Lease No. 3 1/4

NE/4 SW/4 of Section 26:

Bank of America, N.A., Trustee of the
Gay Crabb Karger Trust Lease No. 4 57.50%

Page 2
August 15, 2003

Bank of America, N.A., Trustee of the
Lawrence E. Karger Trust Lease No. 4 17.50%

Bank of America, N.A., Trustee of the
Billy Easley Trust Lease No. 4 25.00%

100

W/2 SW/4 of Section 26:

H-D Mineral Properties, a partnership Lease No. 5 1/2

Bobby V. Bell and wife, Christine Jane Bell,
as joint tenants Lease No. 6 1/2

100%

SE/4 SW/4 of Section 26:

Don C. Dennis, Trustee of the
J.M. Dennis Trust Lease No. 7 1/16

Don C. Dennis, as his separate property Lease No. 7 1/48

The heirs or devisees of Barron Duff Dennis Lease No. 8 1/48

JoAnn DeNitto, as her separate property Lease No. 9 1/48

✓ Angela McAlpin, Personal Representative
of the Estate of G. T. McAlpin, deceased Lease No. 10 1/16 ✓

✓ Lora B. McAlpin, as her separate property Lease No. 11 1/16 * ✓

* The royalty attributable to this interest is owned by Lora B. McAlpin, Trustee of the Lora B. McAlpin Trust dated July 23, 1991.

Sandra Lee Ponder Joy, as her separate property Lease No. 12 1/8

Western Commerce Bank, Trustee of the Frances J.
Freeman Revocable Living Trust u/t/a dated 9/1/92 Lease No. 13 1/8

Bert Ronald Wright, as his separate property Lease No. 14 1/8

Barbara Wright Seward, as her separate property Lease No. 14 3/40

Paul D. Seward and Barbara Wright Seward, Trustees
of the Seward Family Trust u/t/a dated 6/26/03 Lease No. 14 1/20

The heirs or devisees of W. E. Gore Unleased 1/8

Charlsie E. Savage, whose marital status is unknown ... Lease No. 15 1/16

G. G. Gore, whose marital status is unknown Lease No. 16 1/16

100%

OIL AND GAS LEASEHOLD ESTATE

S/2 SE/4 of Section 26:

David H. Arrington Oil & Gas, Inc. Lease No. 1 1/2 x 3/4 WI

Devon Energy Production Company, L.P. Lease No. 1 1/4 x 3/4 WI

Chesapeake Exploration Limited Partnership Lease No. 1 1/4 x 3/4 WI

N/2 SE/4 of Section 26:

David H. Arrington Oil & Gas, Inc. Lease Nos. 2 & 3 1/2 x 3/4 WI

Devon Energy Production Company, L.P. Lease Nos. 2 & 3 1/4 x 3/4 WI

Page 3
August 15, 2003

Chesapeake Exploration Limited Partnership Lease Nos. 2 & 3 1/4 x 3/4 WI

NE/4 SW/4 of Section 26:

David H. Arrington Oil & Gas, Inc. *OGI extended through 4-1-04 1244/836 NM-21-7-0* Lease No. 4 1/2 x 3/4 WI

Devon Energy Production Company, L.P. Lease No. 4 1/4 x 3/4 WI

Chesapeake Exploration Limited Partnership Lease No. 4 1/4 x 3/4 WI

W/2 SW/4 of Section 26:

David H. Arrington Oil & Gas, Inc. Lease No. 5 1/2 x 1/2 x 3/4 WI
..... Lease No. 6 plus 1/2 x 1/2 x 13/16 WI *

Devon Energy Production Company, L.P. Lease No. 5 1/4 x 1/2 x 3/4 WI
..... Lease No. 6 plus 1/4 x 1/2 x 13/16 WI *

Chesapeake Exploration Limited Partnership Lease No. 5 1/4 x 1/2 x 3/4 WI
..... Lease No. 6 plus 1/4 x 1/2 x 13/16 WI *

* These interests are subject proportionately to a 1/16 overriding royalty interest owned as follows:

Dale Douglas, whose wife is Renee Douglas	1.00%
Alpine Petroleum, Inc.	1.00%
John R. McRae	1.00%
The Monument Abo Company	3.25%

SE/4 SW/4 of Section 26:

David H. Arrington Oil & Gas, Inc. Lease Nos. 7, 8 & 9 3/4 x 1/8 x 3/4 WI
..... Lease No. 10 plus 1/2 x 1/16 x 4/5 WI ¹
..... Lease Nos. 11, 14, 15 & 16 plus 1/2 x 7/16 x 3/4 WI

Devon Energy Production Company, L.P. Lease No. 10 1/4 x 1/16 x 4/5 WI ¹
..... Lease Nos. 11, 14, 15 & 16 plus 1/4 x 7/16 x 3/4 WI

Chesapeake Exploration Limited Partnership Lease Nos. 7, 8 & 9 1/4 x 1/8 x 3/4 WI
..... Lease No. 10 plus 1/4 x 1/16 x 4/5 WI ¹
..... Lease Nos. 11, 14, 15 & 16 plus 1/4 x 7/16 x 3/4 WI

David Petroleum Corp. Lease No. 12 1/8 x 3/4 WI
..... Lease No. 13. plus 1/8 x 25/32 WI

Unleased 1/8 ULMI

Notes: ¹ These interests are subject proportionately to a 5% overriding royalty interest owned as follows:

Dale Douglas, whose wife is Renee Douglas	1.00%
Alpine Petroleum, Inc.	1.00%
John R. McRae	1.00%
The Monument Abo Company	2.00%

EXISTING OIL AND GAS LEASES

Unchanged except as follows:

Lease No. 1: *NM-21-6-0*

By Amendment dated January 19, 2003, recorded in Book 1204, page 803, Lea County Records, the primary term of the lease was amended to be for a term of four years from March 16, 2000.

Page 4
August 15, 2003

✓ Lease No. 2: NM-21-3-1

By Amendment dated December 9, 2002, recorded in Book 1205, page 816, Lea County Records, the lease was amended to be for a primary term of four years from March 30, 2000 with regard to the N/2 SE/4 of Section 26. By Amendment dated March 21, 2003, recorded in Book 1217, page 456, Lea County Records, the lease was amended so that the primary term was extended to six years from March 30, 2000 with regard to the remainder of the lands covered by the lease.

✓ Lease No. 3: NM-21-3-2

By Amendment dated January 10, 2003, recorded in Book 1204, page 801, Lea County Records, the lease was amended so that the primary term is for a term of four years from March 30, 2000.

✓ Lease No. 5: NM-21-5-2

By Amendment dated January 28, 2003, recorded in Book 1204, page 799, Lea County Records, the lease was amended so that the primary term was for a term of four years from June 21, 2000.

✓ Lease No. 6: NM-21-5-1

By Amendment dated December 3, 2002, recorded in Book 1193, page 143, Lea County Records, the lease was amended so that the primary term was for a term of four years from March 28, 2000.

Lease No. 10:

Lease No. 10, described in our Original Drilling Title Opinion, dated April 10, 2000, recorded in Book 1023, page 636, Lea County Records, has apparently expired. Lease No. 10 is now described as follows:

NM-21-5-11

Date:	May 9, 2003.	5-9-06
Recorded:	Book 1232, page 800, Lea County Records.	
Lessor:	Angela McAlpin for life by and through her attorney-in-fact, Roger Davidson.	
Lessee:	David H. Arrington Oil & Gas, Inc.	
Land Covered:	SE/4 SW/4 of Section 26, containing 40 acres, more or less.	
Interest Covered:	Apparently a 1/16 interest. See Requirement No. 22 below.	
Primary Term:	<u>Three years</u> from date.	
Royalties:	1/5 on oil and gas.	
Shut-In Gas Well Royalties:	On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease.	
Delay Rentals:	None provided. This is a paid-up lease.	
Depository:	All payments are to be made to the Lessor at 665 Lincoln Court, Grand Junction, CO 81503.	
Unusual Provisions:	None.	
Lease Form:	Producers Revised 1981 New Mexico Form 342P - Paid-Up.	

Pooling ?
Z

Page 5
August 15, 2003Lease No. 12:*Pooling*

Lease No. 12, described in our Original Drilling Title Opinion, dated March 16, 2000, recorded in Book 1013, page 729, Lea County Records, has apparently expired. Lease No. 12 is now described as follows:

Date: January 22, 2003, effective March 17, 2003.

Recorded: Book 1205, page 432, Lea County Records.

Lessor: Sandra Lee Ponder Joy.

Lessee: David Petroleum Corp. *DHAOG no interest*

Land Covered: SE/4 SW/4 of Section 26, containing 40 acres, more or less.

Interest Covered: 1/8 interest.

Primary Term: Three years from March 17, 2003.

Royalties: 1/4 on oil and gas.

Shut-In Gas
Well Royalties: On or before 180 days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease.

Delay Rentals: None provided. This is a paid-up lease.

Depository: All payments are to be made to the Lessor at 17421 E. State Highway 22, Cranfills Gap, TX 76637.

Unusual Provisions: None.

Lease Form: Producers 88 Paid-Up.

Lease No. 13:

Lease No. 13, described in our Original Drilling Title Opinion, dated February 16, 2000, recorded in Book 1013, page 155, Lea County Records, has apparently expired. Lease No. 13 is now described as follows:

Date: March 16, 2003.

Recorded: Book 1213, page 653, Lea County Records.

Lessor: Western Commerce Bank, Trustee of the Frances J. Freeman Revocable Trust.

Lessee: David Petroleum Corp. *DHAOG no interest*

Land Covered: SE/4 SW/4 of Section 26, containing 40 acres, more or less.

Interest Covered: 1/8 interest.

Primary Term: Three years from date.

Royalties: 7/32 on oil and gas.

Shut-In Gas
Well Royalties: On or before ninety days after a well is shut-in and annually thereafter, Lessee may pay an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under the lease. According to Paragraph

Page 6
August 15, 2003

No. 14 of the lease, Lessee's right to continue the lease beyond the primary term by a payment of shut-in gas royalty shall be limited to a maximum period of two years from the expiration of the primary term of the lease.

Delay Rentals: None provided. This is a paid-up lease.

Depository: All payments are to be made to the Lessor at P. O. Box 1627, Lovington, NM 88260.

Unusual Provisions: 13. Although Lessee has the right hereunder to use the surface estate of the above described lands, Lessee shall nevertheless pay to the surface owner reasonable sums for damages to the surface estate, including reasonable sums for damages to improvements and for the damages to livestock and grazing lands. Surface damage payments to the surface owner shall be at least the customary or going rate.

15. At the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on "said land" and thereafter continue such program until all the New Mexico Oil Conservation Commission or other governing state or federal regulatory authority proration units have been drilled, allowing not more than 180 days to elapse between the completion or abandonment of one well and commencement operations for the drilling of another well. Should Lessee fail to commence this program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except the New Mexico Oil Conservation Commission or other governing state or federal regulatory agency proration unit for each producing well or shut-in well. There shall be no liability on the continuous drilling program, save and except for the termination of this lease as to non-productive proration units as above provided. All rights below 100 feet below the deepest producing formation will revert to the Lessor at the expiration of the primary term or termination of the continuous development program herein provided, whichever is later.

16. Notwithstanding anything to the contrary elsewhere in this lease, this lease is made by Lessor without warranty of any kind, express or implied.

18. Lessee agrees that all royalties accruing to Lessor under this lease shall be without deduction for cost of marketing, producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products hereunder ready for sale.

19. No division order shall be required prior to any payment of Lessor hereunder, but Lessee may require an agreement of division from Lessor containing the following only: Lessor's name, address, [REDACTED] number and Lessor's interest. Lessee agrees that such an agreement of division shall constitute a customary and reasonable division order.

ADDITIONAL ASSIGNMENTS

6. By Certificate dated October 31, 2002, recorded in Book 1188, page 306, Lea County Records, Devon SFS Operating, Inc. merged with and into Devon Energy Production Company, L.P.

POOLING DESIGNATION

The materials examined include a Designation of Pooled Unit, in counterpart, all effective January 27, 2003, recorded in Book 1211, page 838, Book 1211, page 843 and Book 1211, page 848, Lea County Records, whereby David H. Arrington Oil & Gas, Inc., Devon Energy Production Company, L.P. and Chesapeake Exploration Limited Partnership designate the S/2 of Section 26 as a pooled unit for production from the proposed Green Eyed Squealy Worm Well No. 1. The exhibit to the counterparts describes Lease Nos. 1-16 as described in our Original Drilling Title Opinion. The exhibit does not describe new Lease Nos. 10, 12 and 13 described in this supplemental title opinion.

*Need to Amend Pooling
Locate copy of Pooling*

STATUS OF TITLE REQUIREMENTS

1.

A and B. Nothing submitted.

2.

Nothing submitted.

3.

Nothing submitted.

4.

Nothing submitted. Due to the fact new Lease No. 13 was executed by Western Commerce Bank, Trustee of the Frances J. Freeman Revocable Trust, you must investigate this matter to determine whether the Frances J. Freeman Revocable Living Trust u/t/a dated September 1, 1992 is one and the same as the Frances J. Freeman Revocable Trust dated February 8, 1983, as amended. In addition, we should be submitted a copy of the trust agreement pursuant to which the bank executed new Lease No. 13.

5.

Nothing submitted.

6.

Nothing submitted.

7.

A and B. Nothing submitted.

8.

Nothing submitted.

9.

A. Advisory.

B. Nothing submitted.

10.

Nothing submitted.

11.

Nothing submitted.

12.

Nothing submitted.

13.

A, B, C and D. Nothing submitted.

14.

A and B. Nothing submitted.

Page 8
August 15, 2003

15.

Nothing submitted.

16.

Partially satisfied. Under the heading "Pooling Designation" above, we have described a Designation of Pooled Unit which was executed by the then working interest owners of Lease Nos. 1-16 described in our Original Drilling Title Opinion. Lease Nos. 10, 12 and 13 described in this supplemental title opinion are new and were not described in the exhibit to the Designation of Pooled Unit. In addition, the designation was not executed by David Petroleum Corp. Accordingly, David H. Arrington Oil & Gas, Inc., Devon Energy Production Company, L.P., Chesapeake Exploration Limited Partnership and David Petroleum Corp. should amend the Designation of Pooled Unit described above to include Lease Nos. 10, 12 and 13. The amended designation should be recorded in Lea County, New Mexico.

17.

Nothing submitted.

18.

Nothing submitted.

19.

Advisory.

20.

Nothing submitted.

ADDITIONAL TITLE REQUIREMENTS

21.

As noted above, Lease Nos. 10, 12 and 13 described in this supplemental title opinion are new leases and the underlying leases have not been released of record.

REQUIREMENT: Submit for examination a release of Lease Nos. 10, 12 and 13 as described in our Original Drilling Title Opinion from the record title owners thereof.

22.

New Lease No. 10 described above is from Angela McAlpin for life, by Roger Davidson, her attorney-in-fact. We do not know how Angela McAlpin acquired a life estate in the interest which we have credited to her as Personal Representative of the Estate of G. T. McAlpin, deceased. See Requirement No. 5 of our Original Drilling Title Opinion in this regard. In addition, we have not examined the power of attorney pursuant to which Roger Davidson executed Lease No. 10 on behalf of Angela McAlpin. Finally, we do not know the identities of the remaindermen of the interest purportedly owned by Angela McAlpin.

REQUIREMENT A: Submit for examination a copy of the power of attorney pursuant to which Roger Davidson executed Lease No. 10 on behalf of Angela McAlpin.

REQUIREMENT B: Submit for examination the document which grants Angela McAlpin a life estate in the SE/4 SW/4 of Section 26, together with the identity of the remaindermen. The satisfaction of Requirement No. 5 in our Original Drilling Title Opinion may satisfy this requirement. At that time, it may be necessary to require that the remaindermen ratify the lease.

23.

New Lease No. 13 covering the SE/4 SW/4 of Section 26 states in Paragraph 13 thereof that although lessee has the right hereunder to use the surface estate of the above described lands, lessee shall nevertheless pay to the surface owner reasonable sums for damages to the surface estate, including

reasonable sums for damages to improvements and for the damages to livestock and grazing lands. Surface damage payments to the surface owner shall be at least the customary or going rate.

REQUIREMENT: In the event you acquire an interest in Lease No. 13 from David Petroleum Corp., it will be necessary for you to settle surface damages as requirement in Paragraph 13 of Lease No. 13.

24.

Lease No. 4 dated April 1, 2000 is for a term of three years from date. It appears that this lease has expired.

REQUIREMENT: Submit for examination an extension of Lease No. 4.

25.


Lease No. 14 dated June 5, 2000 is for a primary term of three years from date. It appears that this lease has expired.

REQUIREMENT: Submit for examination an extension of Lease No. 14.

Respectfully submitted,

STUBBEMAN, McRAE, SEALY,
LAUGHLIN & BROWDER, INC.

By:


Allen G. Harvey

AGH:sab

November 15, 2003

Marshall & Winston, Inc.
Attn: Mr. Kevin Hammit
PO Box 50880
Midland, TX 79710

Re: PARTICIPATION AGREEMENT
Our West Salty Dog Prospect
Green Eyed Squealy Worm 26-1 Well
S/2, Section 26, T-15-S, R-34-E
Lea County, NM

Ladies and Gentlemen:

David H. Arrington Oil & Gas, Inc. ("**Seller**"), has previously acquired an interest in and to certain oil and gas lease(s) covering the referenced exploration prospect area (**the "Prospect Area"**) that is more particularly described in Exhibit "A" attached hereto and by this reference made a part hereof. The oil and gas lease(s) described on said Exhibit "A" is hereinafter referred to as the "**Lease**", whether one or more.

This agreement, effective November 20, 2003, together with all exhibits attached hereto and by this reference made a part hereof (**the "Agreement"**) shall confirm and set forth the understanding of, and agreement to, the terms and conditions whereby Marshall & Winston, Inc. ("**Buyer**") is acquiring the right to an assignment of an undivided interest in and to the Lease and is agreeing to participate pursuant to the terms and conditions herein in the drilling and testing of a certain oil and gas exploration test well (**the "Test Well"**) on the lands covered by such Lease.

I.
INTEREST

1.1 Upon execution of this Agreement, Buyer agrees to pay Seller forty nine thousand fifty four dollars and forty cents (\$49,054.40), being equal to \$575 per acre based on 85.312 acres (being 26.666% of 320 acres).

1.2 Upon Buyer's payment of the aforesaid consideration, Seller shall make an assignment to Buyer of an undivided twenty percent (20%) of 8/8ths working interest in the Lease (**After Payout Interest "API"**), subject only to a proportionate share of the lessor's royalty burdening such Lease and a retained overriding royalty interest equal to the difference between twenty

five percent (25%) and the lessor's royalty provided for in such Lease (**the "Reserved ORRI"**). The form of assignment is as set forth on Exhibit "B" attached hereto (**"Assignment"**). In the event said Lease covers less than the entire mineral estate in the lands covered thereby, then the Reserved ORRI provided for herein shall be proportionately reduced. Seller will deliver a net revenue interest of 75%, proportionately reduced to the twenty percent (20%) of 8/8ths working interest in the Lease assigned to Buyer.

1.3 This Agreement creates an Area of Mutual Interest covering the area identified on the attached Exhibit "C" (**"AMI"**). This AMI shall cover and apply to any oil and gas leases, farmout agreements, term assignments, option agreements or other similar agreements to acquire oil and gas interests, inclusive of force pooled interests covering lands situated within the AMI. The AMI shall be effective December 16, 2003 and shall continue in effect through May 1, 2004, terminating at 12:01 a.m. May 2, 2004.

- (a) Should any party acquire, during the term of the AMI, any interest in the oil and gas estate, including without limiting the foregoing a lease for oil and gas exploration, an option to acquire a lease or other ownership interest in the oil and gas estate, a farm-in, or any type of agreement by which such an interest may be earned or otherwise acquired (including force pooled interests), covering any like interest in lands any part of which are within the AMI (an interest so owned or acquired insofar and only insofar as it covers lands within the AMI, as it then exists being herein called an (**"Acquired Interest"**) such party (**the "Acquiring Party"**) shall promptly notify the other parties hereto, in writing, of such acquisition, the consideration paid or to be paid for the Acquired Interest, any other obligations (including, without limitation, drilling obligations) undertaken or to be undertaken as a part of such acquisition and any other terms of such acquisition. In addition, the written notification shall contain all available title information, and copies of leases, agreements by which the interests may be acquired, and all other pertinent instruments. The written notice shall also describe in detail the cost and expense of such acquisition and any other obligation which may be incurred pursuant thereto. Each of the parties shall, within fifteen (15) days after receipt of such notice, notify the Acquiring Party, in writing, whether or not it wishes to participate in such acquisition; provided, however, that failure of any party hereto to respond within the time and in the manner set forth above shall be deemed to be an election not to participate in such acquisition.

Such notice shall be made monthly and to each section of land separately and shall cover all acquisitions completed within the preceding month, and any election to participate must be made on all of the acquisitions within the notice. It is the intent of the parties that an election may not be made as to a part or parcel of any notice.

- (b) Should any party hereto properly elect to participate in an acquisition of an Acquired Interest, such party shall pay (or to the extent not yet due, agree to pay when due) its participating percentage Seller (80%) and Buyer (20%) subject to provision 5. AREA OF MUTUAL INTEREST in that

certain Participation Agreement, West Salty Dog Prospect, Lea County, New Mexico by and between David H. Arrington Oil & Gas, Inc and Chesapeake Exploration Limited Partnership effective May 1, 2002 copy attached hereto as Exhibit "E", (as hereinafter used in this paragraph, "Participating Percentage"), and of the actual costs incurred by the Acquiring Party in making such acquisition and agree to assume its Participating Percentage of any other obligations which are undertaken as part of such acquisition, and upon receipt of such payment, such party shall be assigned as herein provided the Participating Percentage of the Acquired Interest. Following an election to participate, the Acquiring Party shall invoice each participating party for its determined Participating Percentage of the actual costs of the Acquired Interests, and such invoice shall be payable within fifteen (15) days of receipt thereof. Any participating party that fails to timely tender the full consideration set forth in the invoice as provided herein shall be deemed to have elected not to participate in the Acquired Interest.

- (c) Notwithstanding anything contained herein to the contrary, in the event that either party hereto acquires an oil and gas lease at a state, federal, or other public or competitive auction, then the Acquiring Party may give written notice of the acquisition as provided above; however, in this instance, the party receiving the notice shall have three (3) business days from receipt of the written notice in which to notify the Acquiring Party, in writing, whether or not it wishes to participate in such acquisition, and following an election to participate, such party shall submit payment for its proportionate share of the invoiced share of the actual costs of acquisition to the Acquiring Party within ten (10) days of the election. Failure of any party hereto to respond within the time and submit payment in the manner set forth above shall be deemed to be an election not to participate in such acquisition.
- (d) If both parties hereto elect to participate in any Acquired Interest, then any such Acquired Interest shall thereafter be subject to this Agreement. If one but not both of the parties elect to participate in such Acquired Interest, such Acquired Interest will not be subject to this Agreement.
- (e) Following an election by both parties to participate in an Acquired Interest acquired within the AMI, the Acquiring Party shall assign and convey or cause to be assigned and conveyed unto Seller, or to Seller's designee, an overriding royalty interest ("ORRI") equal to four percent of eight eighths (4% of 8/8ths); provided however, said ORRI shall not work to reduce the available net revenue under the Acquired Interest to less than 75%. (Example: Acquired Interest available net revenue is 77.5%, then the ORRI would be 2.5%). The ORRI shall be proportionately reduced in the event that the Acquired Interest covers less than the full undivided mineral estate or leasehold estate. The form of Assignment of Overriding

Royalty shall be the general form as set forth on Exhibit "B" attached hereto.

- (f) Any assignments to be made pursuant to the AMI shall be made on the general form attached hereto as Exhibit "B" for the Acquired Interest, with an appropriate adjustment regarding the deletion of the paragraph providing for the retention of an ORRI by the Assignor, where applicable.
- (g) This AMI and the provisions herein shall not apply to acquisitions of interest(s) by merger, consolidation, acquisition of all or substantially all of the assets of another entity or subsidiary or parent company to a subsidiary, or an acquisition in which the purchase acquires a majority of the stock of an entity.

1.4 The assignment to Buyer of an interest in the Lease will be subject to the provisions contained in the Lease and to the additional burdens and obligations set forth in this Agreement, including a proportionate share of the Reserved ORRI provided for herein. Seller shall warrant the title to the undivided interest in the Lease assigned and conveyed unto Buyer against all parties claiming or attempting to claim the same, or any portion thereof, by, through or under Seller, but not otherwise. Seller represents that (i) it is unaware of any liens, claims or encumbrances affecting the Lease, (ii) the Lease is valid and subsisting in accordance with its terms, (iii) it has no knowledge of any claim having been made regarding failure to perform under the terms of the Lease, (iv) to the best of its knowledge and belief, no default has occurred with respect to any material provisions of the Lease, (v) it is the present owner of the Lease, (vi) it owns sufficient interest in the Lease to satisfy this Agreement, and (vii) it has the right and authority to enter into this Agreement.

II.

TERMS FOR DRILLING TEST WELL

2.1 Seller and Buyer agree that all drilling and operations on the Prospect Area will be governed by the terms and conditions of the Operating Agreement attached as Exhibit "D" hereto and made a part hereof (**the "OA"**) which names Seller, as Operator. Should there be any conflict between the terms and conditions of this Agreement and the terms and conditions of the OA (or any replacement or superseding Operating Agreement), the terms and conditions of this Agreement shall control for so long as this Agreement is in effect. Buyer does hereby adopt, ratify and confirm the OA insofar and only insofar as the OA governs and controls the Lease, lands and depths set forth on Exhibit "A", Prospect Area.

2.2 The Test Well is to be drilled in a good and workmanlike manner to a depth sufficient to penetrate and test the Morrow formation at a depth of approximately 13,600 feet subsurface, whichever is the lesser depth (**the "Contract Depth"**) unless hole conditions preclude the well from attaining Contract Depth. Surface location as currently proposed is 1974' FSL and 1129' FEL of Section 26, T15S, R34E, Lea County, New Mexico.

2.3 As a portion of the consideration being exchanged between the Seller and Buyer in connection with the execution and delivery of this Agreement, and as an additional inducement to Seller to enter into this Agreement, Buyer hereby obligates itself and covenants and agrees with Seller to participate in and pay for an undivided twenty six and 66.6/100 percent (26.666%) of 8/8ths of the cost, risk and expense of drilling, completing and operating the Test Well until said well has reached payout (**Before Payout Interest "BPI"**). For purposes herein, payout shall be defined as that point in time when the net proceeds, as hereinafter defined, from the sale of all production of the oil and/or gas produced from the Test Well, or credited to said well, either by reason of transferred allowable, unit allocation or any other means, attributable to the BPI, equals one hundred percent (100%) of the cost and expense, both tangible and intangible, of drilling, equipping (an oil well through the oil storage tanks and a gas well through the Christmas tree), testing, completing and operating said well ("**Payout**"). The "**Net Proceeds**" are defined as the total proceeds received from, credited or allocated to production, less severance, production and other taxes payable on the production therefrom, together with all royalties, shut-in gas royalties, overriding royalties and payments out of production presently in effect.

2.4 Notwithstanding any other provision of this Agreement to the contrary, Buyer shall bear and pay twenty six and 66.6/100 percent (26.666%) of 8/8ths of the cost, risk and expense associated with the plugging and abandonment of the Test Well in the event that all parties elect to plug said well prior to said well reaching Payout.

2.5 Should the Test Well reach Payout status, Seller shall have a one(1) time election to either; (i) back-in for six and 66.6/100 percent (6.666%) of 8/8ths of Buyers twenty six and 66.6/100 percent (26.666%) of 8/8ths BPI in the Test Well at no cost to Seller or, (ii) not to back-in and retain Sellers BPI in the Test Well. Seller shall have five (5) days exclusive of weekends and federal holidays from the date the well reaches Payout to make their election. Failure by Seller to timely make their election, shall be deemed an election to back-in for six and 66.6/100 percent (6.666%) of 8/8ths of Buyers twenty six and 66.6/100 percent (26.666%) of 8/8ths BPI in the Test Well at no cost to Seller. Buyer's interest in all subsequent wells drilled pursuant to this Agreement shall be twenty percent (20%) of 8/8ths.

III.

WELL INFORMATION AND DATA

3.1 During the drilling of the Test Well, authorized employees, agents and representatives of each non-operating party participating in the drilling, sidetracking, completing or reworking of any well drilled on the Prospect Area pursuant to the terms of this Agreement or the OA shall be entitled to receive copies of all geological and geophysical information obtained from such operation and shall have access to the rig floor, at their own respective cost, risk and expense, to observe all operations conducted by the Operator. Operator shall provide advance notice to each of the non-operating parties in order that they may have their employees, agents or authorized representatives present to witness the running of logs, tests of shows encountered and production tests.

IV.
OVERRIDING ROYALTY INTERESTS

4.1 All oil, gas and/or mineral leases purchased or acquired or renewed by Seller or Buyer (including those acquired by farmout or similar agreements) subsequent to the date of this Agreement within the AMI shall be subject to an overriding royalty interest in favor of Seller, or and any other burdens on such lease **(the "Reserved ORRI")**; provided, however, in the event its designees, equal to the difference between twenty five percent (25%) and lessor's royalty that any such lease covers less than the entire mineral estate in the lands covered thereby or if less than all of the working interest is acquired in said lease, then the overriding royalty interest provided for herein shall be proportionately reduced. This overriding royalty interest shall be borne by the parties hereto in proportion to their ownership in such acquired lease.

V.
NOTICES

5.1 Any notice or information required to be furnished hereunder shall be in writing or by fax and given to the following parties:

SELLER:

David H. Arrington Oil & Gas, Inc.
PO Box 2071
214 W. Texas, Suite 400
Midland, TX 79701

Attn: David H. Arrington
Office: 432.682.6685
Fax: 432.682.4139

BUYER:

Marshall & Winston, Inc.
PO Box 50880 79705
6 Desta Drive, Ste. 3100 (zip ~~79703~~)
Midland, TX 79710

Attn: Kevin Hammit
Office: 432.684.6373
Fax: 432.682.1316

5.2 Seller and Buyer shall have the right to change their respective addresses for notice purposes by giving written notice of such change to the other party.

VI.
GENERAL TERMS

6.1 This Agreement and all operations conducted on the AMI and the Lease shall be subject to all valid and applicable laws, orders, rules and regulations of any governmental body having jurisdiction over such operations. The obligations of the parties hereunder are intended to be separate and not joint or collective, and nothing in this Agreement nor any act by Seller or Buyer shall ever be construed or implied as creating a mining partnership, commercial partnership, or other partnership relation; it being the intention of the parties hereto not to create, and this Agreement shall never be construed to create, a mining or other partnership or joint venture.

6.2 Each party's obligations as set out in this Agreement are several and not joint and each party shall be individually responsible for its own obligations as set out in this Agreement and in the OA.

6.3 This Agreement shall be effective November 20, 2003 and shall expire on the earliest date of either (i) Payout in the Test Well, or (ii) Plugging of Test Well prior to Payout.

6.4 This Agreement and the interest in the Lease assigned and conveyed to Buyer pursuant to this Agreement may be assigned or transferred, in whole or in part, without the prior written consent of Seller; provided, however, that any such assignment shall nevertheless be void unless it is made expressly subject to this Agreement for so long as this Agreement is in effect .

6.5 THIS AGREEMENT, THE OTHER DOCUMENTS EXECUTED AND DELIVERED PURSUANT HERETO AND THE LEGAL RELATIONSHIP BETWEEN THE PARTIES WITH RESPECT TO THIS AGREEMENT, SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT REGARD TO RULES GOVERNING CONFLICTS OF LAW.

6.6 BUYER REPRESENTS AND ACKNOWLEDGES THAT IT IS KNOWLEDGEABLE OF THE OIL AND GAS BUSINESS AND OF THE USUAL AND CUSTOMARY PRACTICES OF PRODUCERS SUCH AS SELLER AND THAT BUYER HAS HAD ACCESS TO THE LEASE, THE OFFICES AND EMPLOYEES OF SELLER, AND THE BOOKS, RECORDS AND FILES OF SELLER RELATING TO THE LEASE IN MAKING THE DECISION TO ENTER INTO THIS AGREEMENT AND CONSUMMATE THE TRANSACTIONS CONTEMPLATED HEREBY. BUYER HAS RELIED SOLELY ON THE BASIS OF ITS OWN INDEPENDENT DUE DILIGENCE INVESTIGATION OF THE LEASE AND, ACCORDINGLY, BUYER ACKNOWLEDGES THAT SELLER HAS NOT MADE, AND SELLER HEREBY EXPRESSLY DISCLAIMS AND NEGATES ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, OR ARISING AT COMMON LAW, BY STATUTE OR OTHERWISE, RELATING TO THE LEASE, INCLUDING WITHOUT LIMITATION ANY REPRESENTATION OR WARRANTY WITH RESPECT TO TITLE TO THE LEASE (EXCEPT AS EXPRESSLY PROVIDED IN PARAGRAPH 1.4 ABOVE) OR THE QUALITY, QUANTITY OR VALUE OF THE RESERVES OF OIL, GAS OR OTHER HYDROCARBONS IN OR UNDER THE LEASE. BUYER ACKNOWLEDGES THAT THE DISCLAIMERS CONTAINED IN THIS PARAGRAPH ARE "CONSPICUOUS" FOR PURPOSES OF ANY APPLICABLE STATE OR FEDERAL SECURITIES LAW, RULE, REGULATION OR ORDER.

6.7 Buyer represents and acknowledges that prior to entering into this Agreement, Buyer was advised by and has relied solely on its own legal, tax and other professional counsel concerning this Agreement, the Lease and the value thereof. Buyer represents and acknowledges that it is able to bear the economic risk of any oil and gas investment Buyer is obligated to or might choose to make in the Lease and well(s) to be drilled thereon and that Buyer is capable of evaluating the merits and risks of investments in the Lease and well(s) to be drilled thereon. Buyer represents and acknowledges that it is acquiring an interest in the Lease for its own account and not for distribution or resale in any manner that would violate any state or federal securities law, rule, regulation or order.

6.8 This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions among the parties with respect to such subject matter. No representations, inducements, promises, or agreements, oral or otherwise, which are not embodied in this Agreement shall be of any force or effect.

6.9 If any one or more of the provisions of this Agreement shall be determined to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired, and the offending provision or provisions shall be reformed, and the remaining provisions interpreted so as to give effect, to the maximum extent permissible, to the agreement of the parties as set out herein.

If the foregoing terms and conditions confirm your understanding of our Agreement, please execute in the space provided below for your signature and return one (1) fully executed original of this Agreement along with your check.

IN WITNESS WHEREOF, this instrument is executed in multiple originals each of which shall be considered an original for all purposes.

Yours very truly,

DAVID H. ARRINGTON OIL & GAS, INC.

By: 
David H. Arrington, President

ACCEPTED AND AGREED TO THIS 13th DAY OF Nov., 2003.

MARSHALL & WINSTON, INC.

By: 
Clarence R. Chandler, President

EXHIBIT "A"

Attached to and made a part of that certain Participation Agreement EFFECTIVE November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. ("Seller") and Marshall & Winston, Inc. ("Buyer").

PROSPECT AREA

T15S, R34E, Lea County, New Mexico

S/2 Section: 26 ALL DEPTHS

OIL & GAS LEASES SUBJECT TO THIS AGREEMENT

Lease 1: NM 21-6-0
Date: March 16, 2000
Recorded: Book 1013 at Page 692
Lessor: June D. Speight
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: S/2SE/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
 Lea County, New Mexico

As amended by Amendment dated January 19, 2003, recorded at Book 1204, Page 803

Lease 2: NM 21-3-1
Date: March 30, 2000
Recorded: Book 1013 at Page 92
Lessor: Marshall & Winston, Inc.
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: INSOFAR & ONLY INSOFAR as lease covers the N/2SE/4 of Section 26,
 T-15-S, R-34-E, N.M.P.M., Lea County, New Mexico

As amended by Amendment dated December 9, 2002, recorded at Book 1205, Page 816

Lease 3: NM 21-3-2
Date: March 30, 2000
Recorded: Book 1013 at Page 689
Lessor: Winston Partners, Ltd.
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: N/2SE/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
 Lea County, New Mexico

As amended by Amendment dated January 10, 2003, recorded at Book 1204, Page 801

Lease 4: NM 21-7-0
Date: April 1, 2000
Recorded: Book 1021 at Page 718
Lessor: Bank of America, N.A., Trustee of the Gay Crabb Karger Trust,
 the Billy Easley Trust and the Lawrence E. Karger Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: NE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
 Lea County, New Mexico

As amended by Amendment dated February 14, 2003, recorded at Book 1244, Page 836

Lease 5: NM 21-5-2
Date: June 21, 2000
Recorded: Book 1029 at Page 127
Lessor: H-D Mineral Properties
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: W/2SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico
As amended by Amendment dated January 28, 2003, recorded at Book 1204, Page 799

Lease 6: NM 21-5-1
Date: March 28, 2000
Recorded: Book 1013 at Page 727
Lessor: Bobby V. Bell and wife, Christine Jane Bell
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: W/2SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico
As amended by Amendment dated December 3, 2002, recorded at Book 1193, Page 143

Lease 7: NM 21-2-10
Date: February 1, 2002
Recorded: Book 1142 at Page 787
Lessor: Don C. Dennis, Individually and as Trustee of the J.M. Dennis Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 8: NM 21-2-9
Date: February 1, 2002
Recorded: Book 1140 at Page 706
Lessor: Jessie A. Dennis, sole heir of Barron Dennis
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 9: NM 21-2-8
Date: February 1, 2002
Recorded: Book 1139 at Page 683
Lessor: JoeAnn DeNitto
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 10: NM 21-2-11
Date: May 9, 2003
Recorded: Book 1232 at Page 800
Lessor: Angela McAlpin for life by / through her attorney-in-fact, Roger Davidson
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 11: NM 21-2-7
Date: December 12, 2000
Recorded: Book 1059 at Page 438
Lessor: Lora B. McAlpin
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 12:

Date: January 22, 2003, effective March 17, 2003
Recorded: Book 1205 at Page 432
Lessor: Sandra Lee Ponder Joy
Lessee: David Petroleum Corp.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 13:

Date: March 16, 2003
Recorded: Book 1213 at Page 653
Lessor: Western Commerce Bank, Trustee of the Frances J. Freeman
Revocable Trust
Lessee: David Petroleum Corp.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 14:

NM 21-2-4
Date: June 5, 2000
Recorded: Book 1029 at Page 292
Lessor: Wells Fargo Bank, New Mexico, N.A., successor by merger to
Norwest Bank, New Mexico, N.A., Trustee for the Fredia Irene
Madding Wright Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated May 21, 2003, recorded at Book 1232, Page 797, and
as amended by Amendment dated May 28, 2003, recorded at Book 1232, Page 794

Lease 15:

NM 21-2-6
Date: January 5, 2001
Recorded: Book 1059 at Page 436
Lessor: Charlsie E. Savage
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 16:

NM 21-2-5
Date: January 5, 2001
Recorded: Book 1061 at Page 451
Lessor: G.G. Gore
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

EXHIBIT "B"

Attached to and made a part of that certain Participation Agreement EFFECTIVE November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. ("Seller") and Marshall & Winston, Inc. ("Buyer").

ASSIGNMENT

STATE OF NEW MEXICO §
 § KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF LEA §

THAT, David H. Arrington Oil & Gas, Inc., whose mailing address is P. O. Box 2071, Midland, Texas 79702 (hereinafter referred to as **"ASSIGNOR"**), for and in consideration of the sum of Ten Dollars (\$10.00), cash in hand paid, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, by these presents does hereby grant, transfer, assign and convey unto Marshall & Winston, Inc., P. O. Box 50880, Midland, Texas 70710, its successors and assigns (hereinafter referred to as **"ASSIGNEE"**, without warranty of title, either express, implied or statutory, an _____ in and to the oil and gas leases described on Exhibit "A" attached hereto and made a part hereof for all purposes, (hereinafter referred to as **"Subject Leases"** whether one or more) covering the lands described thereon (hereinafter referred to as **"Subject Lands"**).

Assignor reserves, excepts and retains from this Assignment an overriding royalty interest equal to twenty-five percent of eight-eighths (25% of 8/8ths) less and except any royalties, overriding royalties or other burdens on production existing as of the date of this Assignment of all oil, gas and casinghead gas produced and saved from the Subject Leases and Subject Lands. It is the intent of Assignor to deliver a 75% net revenue interest to Assignee on each of the Subject Leases.

In the event the leasehold interest of Assignor is less than the full leasehold interest in the Subject Leases, or the Subject Leases cover less than all the oil and gas in the Subject Lands, the overriding royalty interest retained by Assignor shall be proportionately reduced to accord with the interest assigned.

The overriding royalty interest reserved herein may be pooled or unitized by Assignee without the consent of Assignor under the same terms and conditions as the royalty under said leases may be pooled or unitized. In the event the Subject Leases and Subject Lands upon which such well is located is included in a pooled spacing or proration unit, the overriding royalty interest of Assignor in the production from said unit shall be determined by multiplying said reserved overriding royalty by a fraction, the numerator of which is the net Lease Acreage in said unit and the denominator of which is the entire acreage of such unit.

Assignee agrees that all overriding royalties accruing to Assignor under the Subject Leases shall be free and clear of all costs and expenses, except that said overriding royalty shall bear its ratable portion of treating, compression and transportation charges along with applicable taxes.

This Assignment is made and accepted specifically subject to the terms and conditions of (i) each of the Subject Leases, (ii) all royalties, overriding royalties, and other similar burdens on the Subject Leases, and (iii) that certain Participation Agreement, Our West Salty Dog Prospect, Lea County, New Mexico effective November 20, 2003 by and between David H. Arrington Oil & Gas, Inc. ("**Seller**"), and Marshall & Winston, Inc. ("**Buyer**").

TO HAVE AND TO HOLD the same unto the ASSIGNEE, its heirs, administrators, executors, devisees, trustees, successors, and assigns, according to the terms, covenants, and conditions of the Subject Leases, the ASSIGNEE to perform all such terms, covenants, and conditions thereof as to the Subject Lands, as well as all of the terms, covenants, and conditions hereof.

IN WITNESS WHEREOF, this instrument is executed as of the date set forth in the acknowledgment below, but **EFFECTIVE for all purposes as of** _____.

ASSIGNOR:

DAVID H. ARRINGTON OIL & GAS, INC.

By: _____
David H. Arrington, President

ACKNOWLEDGMENTS

STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me, this ____ day of _____, 2003 by David H. Arrington, President of David H. Arrington Oil & Gas, Inc., a Texas corporation, on behalf of said corporation.

Notary Public in and for the State of _____
My Commission Expires _____

EXHIBIT "D"

Attached to and made a part of that certain Participation Agreement EFFECTIVE November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. ("Seller") and Marshall & Winston, Inc. ("Buyer").

OPERATING AGREEMENT

EXHIBIT "C"

Attached to and made a part of that certain Participation Agreement EFFECTIVE November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. ("Seller") and Marshall & Winston, Inc. ("Buyer").

AREA OF MUTUAL INTEREST

T15S, R34E, Lea County New Mexico.
Section: 23,26 & 35 All depths

EXHIBIT "E"

Attached to and made a part of that certain Participation Agreement EFFECTIVE November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. ("Seller") and Marshall & Winston, Inc. ("Buyer").

5. AREA OF MUTUAL INTEREST:

This Agreement creates an Area of Mutual Interest (being hereinafter referred to as the "AMI") which shall be comprised of the Contract Area. This AMI shall cover and apply to any oil and gas leases, farmout agreements, term assignments, option agreements or other similar agreements to acquire oil and gas interests, inclusive of force pooled interests covering lands situated within the AMI. The AMI shall be for a term of two (2) years from the effective date hereof, thereby terminating May 1, 2004.

- (a) Should any party acquire, during the term of the AMI, any interest in the oil and gas estate, including without limiting the foregoing a lease for oil and gas exploration, an option to acquire a lease or other ownership interest in the oil and gas estate, a farm-in, or any type of agreement by which such an interest may be earned or otherwise acquired (including force pooled interests), covering any like interest in lands any part of which are within the AMI (an interest so owned or acquired insofar and only insofar as it covers lands within the AMI, as it then exists being herein called an "Acquired Interest") such party (the "Acquiring Party") shall promptly notify the other parties hereto, in writing, of such acquisition, the consideration paid or to be paid for the Acquired Interest, any other obligations (including, without limitation, drilling obligations) undertaken or to be undertaken as a part of such acquisition and any other terms of such acquisition. In addition, the written notification shall contain all available title information, and copies of leases, agreements by which the interests may be acquired, and all other pertinent instruments. The written notice shall also describe in detail the cost and expense of such acquisition and any other obligation which may be incurred pursuant thereto. Each of the parties shall, within fifteen (15) days after receipt of such notice, notify the Acquiring Party, in writing, whether or not it wishes to participate in such acquisition; provided, however, that failure of any party hereto to respond within the time and

in the manner set forth above shall be deemed to be an election not to participate in such acquisition.

Such notice shall be made monthly and to each section of land separately and shall cover all acquisitions completed within the preceding month, and any election to participate must be made on all of the acquisitions within the notice. It is the intent of the parties that an election may not be made as to a part or parcel of any notice.

- (b) Should any party hereto properly elect to participate in an acquisition of an Acquired Interest, such party shall pay (or to the extent not yet due, agree to pay when due) its participating percentage, Arrington (25%) and Chesapeake (75%) (as hereinafter used in this paragraph, "Participating Percentage"), of the actual costs incurred by the Acquiring Party in making such acquisition and agree to assume its Participating Percentage of any other obligations which are undertaken as part of such acquisition, and upon receipt of such payment, such party shall be assigned as herein provided the Participating Percentage of the Acquired Interest. Following an election to participate, the Acquiring Party shall invoice each participating party for its determined Participating Percentage of the actual costs of the Acquired Interests, and such invoice shall be payable within fifteen (15) days of receipt thereof. Any participating party that fails to timely tender the full consideration set forth in the invoice as provided herein shall be deemed to have elected not to participate in the Acquired Interest.
- (c) Notwithstanding anything contained in this Paragraph 5 to the contrary, in the event that either party hereto acquires an oil and gas lease at a state, federal, or other public or competitive auction, then the Acquiring Party may give written notice of the acquisition as provided above; however, in this instance, the party receiving the notice shall have three (3) business days from receipt of the written notice in which to notify the Acquiring Party, in writing, whether or not it wishes to participate in such acquisition, and following an election to participate, such party shall submit payment for its proportionate share of the invoiced share of the actual costs of acquisition to the Acquiring Party within ten (10) days of the election. Failure of any party hereto to respond within the time and submit payment in the manner set forth

above shall be deemed to be an election not to participate in such acquisition.

- (d) If both parties hereto elect to participate in any Acquired Interest, then any such Acquired Interest shall thereafter be subject to this Agreement. If one but not both of the parties elect to participate in such Acquired Interest, such Acquired Interest will not be subject to this Agreement.
- (e) Following an election by both parties to participate in an Acquired Interest acquired within the AMI, the Acquiring Party shall assign and convey or cause to be assigned and conveyed unto Seller, or to Seller's designee, an overriding royalty interest ("ORRI") equal to four percent of eight eighths (4% of 8/8ths); provided however, said ORRI shall not work to reduce the available net revenue under the Acquired Interest to less than 75%. (Example: Acquired Interest available net revenue is 77.5%, then the ORRI would be 2.5%). The ORRI shall be proportionately reduced in the event that the Acquired Interest covers less than the full undivided mineral estate or leasehold estate. The form of Assignment of Overriding Royalty shall be the general form as set forth on Exhibit "D" attached hereto.
- (f) Any assignments to be made pursuant to the AMI shall be made on the general form attached hereto as Exhibit "C" for the Acquired Interest, with an appropriate adjustment regarding the deletion of the paragraph providing for the retention of an ORRI by the Assignor, where applicable.
- (g) This AMI and the provisions of this Section 5 shall not apply acquisitions of interest(s) by merger, consolidation, acquisition of all or substantially all of the assets of another entity or subsidiary or parent company to a subsidiary, or an acquisition in which the purchase acquires a majority of the stock of an entity.

EXHIBIT "D"

**Attached to and made a part of that certain Participation Agreement EFFECTIVE
November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. ("Seller") and
Marshall & Winston, Inc. ("Buyer")**

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 20 , 2003 ,
year

OPERATOR DAVID H. ARRINGTON OIL & GAS, INC.

CONTRACT AREA S/2 Section 26, T15S-R34E

COUNTY OR PARISH OF Lea STATE OF New Mexico

COPYRIGHT 1982 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

**Green Eyed Squealy Worm #1
Our West Salty Dog Prospect**

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 20 , 2003 ,
year

OPERATOR DAVID H. ARRINGTON OIL & GAS, INC.

CONTRACT AREA S/2 Section 26, T15S-R34E

COUNTY OR PARISH OF Lea STATE OF New Mexico

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**Green Eyed Squealy Worm #1
Our West Salty Dog Prospect**

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	<u>DEFINITIONS</u>	1
II.	<u>EXHIBITS</u>	1
III.	<u>INTERESTS OF PARTIES</u>	2
	A. OIL AND GAS INTERESTS	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION	2
	C. EXCESS ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	2
	D. SUBSEQUENTLY CREATED INTERESTS	2
IV.	<u>TITLES</u>	2
	A. TITLE EXAMINATION	2-3
	B. LOSS OF TITLE	3
	1. Failure of Title	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	<u>OPERATOR</u>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	<u>DRILLING AND DEVELOPMENT</u>	4
	A. INITIAL WELL	4-5
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6-7
	3. Stand-By Time	7
	4. Sidetracking	7
	C. TAKING PRODUCTION IN KIND	7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	8
	E. ABANDONMENT OF WELLS	8
	1. Abandonment of Dry Holes	8
	2. Abandonment of Wells that have Produced	8-9
	3. Abandonment of Non-Consent Operations	9
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u>	9
	A. LIABILITY OF PARTIES	9
	B. LIENS AND PAYMENT DEFAULTS	9
	C. PAYMENTS AND ACCOUNTING	9
	D. LIMITATION OF EXPENDITURES	9-10
	1. Drill or Deepen	9-10
	2. Rework or Plug Back	10
	3. Other Operations	10
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	10
	F. TAXES	10
	G. INSURANCE	11
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u>	11
	A. SURRENDER OF LEASES	11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTIONS	11-12
	D. MAINTENANCE OF UNIFORM INTEREST	12
	E. WAIVER OF RIGHTS TO PARTITION	12
	F. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	<u>INTERNAL REVENUE CODE ELECTION</u>	12
X.	<u>CLAIMS AND LAWSUITS</u>	13
XI.	<u>FORCE MAJEURE</u>	13
XII.	<u>NOTICES</u>	13
XIII.	<u>TERM OF AGREEMENT</u>	13
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
	C. REGULATORY AGENCIES	14
XV.	<u>OTHER PROVISIONS</u>	14
XVI.	<u>MISCELLANEOUS</u>	15

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between DAVID H. ARRINGTON OIL & GAS, INC.

, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", Tax Partnership: Memorandum of Operating Agreement

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of 25% which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price. Any party taking its share of production in kind shall pay or deliver or cause to be paid or delivered the royalties due on its share of production.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, ~~or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:~~

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

**ARTICLE IV.
TITLES**

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV
continued

☒ Option No. 2: Costs incurred by Operator, in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,~~

~~— (a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

~~— (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;~~

~~— (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;~~

~~— (d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;~~

~~— (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

~~— (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.~~

~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

~~— (a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;~~

~~— (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and,~~

~~— (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

DAVID H. ARRINGTON OIL & GAS, INC. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 29th day of February, (year) 2004, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FSL & 1120' FEL Section 26, T15S-R34E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to

13,600' (Mississippian)

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

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6 **B. Subsequent Operations:**

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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.

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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.

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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.

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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

ARTICLE VI
continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

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21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

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53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

ARTICLE VI
continued

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

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7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

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16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

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21 **D. Access to Contract Area and Information:**

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23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information.

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31 **E. Abandonment of Wells:**

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33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas ^{if the operator does not participate} by immediately proposing operations to the other parties subject to the provisions of Article VI.B.

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42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
54 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
55 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

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ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

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7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it,
9 but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-
10 taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to
11 the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas
12 not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such
13 reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event
14 for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate com-
15 merce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

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17 **D. Access to Contract Area and Information:**

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19 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
20 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
21 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
22 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
23 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
24 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
25 quests the Information.

26
27 **E. Abandonment of Wells:**

28
29 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
30 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
31 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
32 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
33 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
34 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
35 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
36 operations in search of oil and/or gas subject to the provisions of Article VI.B.

37
38 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
39 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
40 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
41 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
42 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
43 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
44 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
45 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
46 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
47 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
48 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
49 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
50 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
51 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

ARTICLE VI
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
28 shall this agreement be construed as creating, a mining or other partnership or association, ~~or to render the parties liable as partners joint-~~
29 ~~venture or agency relationship, or to render the parties liable as partners, co-venturers or principles.~~

B. Liens and Payment Defaults:

32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph. **It is provided however, that any party**
47 **who assigns an interest to a third party subsequent to the execution of this agreement, and that party fails or is unable to pay as**
48 **provided herein, then the party who assigns to said third party shall be solely responsible for said unpaid amount.**

C. Payments and Accounting:

52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
53 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
54 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
55 showing expenses incurred and charges and credits made and received.

57 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
58 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
59 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
60 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
61 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
62 ^{thirty} ~~fifteen / (15)~~ days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the
63 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
64 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

68 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
69 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:
70

ARTICLE VII
continued

1 ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including~~
2 ~~necessary tankage and/or surface facilities.~~

3

4 ☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14

15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19

20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of twenty-five thousand Dollars (\$ 25,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of twenty-five thousand
28 Dollars (\$ 25,000.00) but less than the amount first set forth above in this paragraph.

29

30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31

32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 ~~party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-~~
34 ~~tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on~~
35 ~~behalf of all such parties. /~~ Operator as a joint account expense. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2.

39

40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45

46 **F. Taxes:**

47

48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59

60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66

67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

69

70

ARTICLE VII
continued**1 G. Insurance:**

2

3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9

10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12

13

ARTICLE VIII.

14

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

15

16 A. Surrender of Leases:

17

18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
19 or in part unless all parties consent thereto.

20

21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35

36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
39 agreement.

40

41 B. Renewal or Extension of Leases:

42

43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48

49 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53

54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party.

56

57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to
61 the provisions of this agreement.

62

63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64

65 C. Acreage or Cash Contributions:

66

67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

5
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8
9 **D. Maintenance of Uniform Interests:**

10
11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
13 equipment and production unless such disposition covers either:

- 14
15 1. the entire interest of the party in all leases and equipment and production; or
16
17 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

18
19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

21
22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28
29 **E. Waiver of Rights to Partition:**

30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided
33 interest therein.

34
35 **F. Preferential Right to Purchase:**

36
37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~
40 ~~of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase~~
41 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~
43 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~
45 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46
47 **ARTICLE IX.**
48 **INTERNAL REVENUE CODE ELECTION**

49
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed fifteen thousand Dollars (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspending during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise.~~

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any ~~expense liability or other obligation or any remedy therefore,~~ liability which has accrued or attached prior to the date of such termination.

**ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS**

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

**ARTICLE XV.
OTHER PROVISIONS**

XV.A. Place of Payment.

All sums payable hereunder shall be payable at the physical address of the Operator as set forth on Exhibit "A", as may be amended by written notification, or at such other place as Operator may from time to time designate.

XV.B. Taxes.

If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's working interest.

XV.C. Rework, Deepen or Plug Back, Producing Well

No well which is producing in commercial quantities shall be reworked, deepened or plugged back without the consent of a party or parties owning an aggregate of 80% of the working interest in such well. A party who has elected not to participate in such operation (as permitted in Article VI.B.) may nonetheless consent to the conducting of such operations by less than all parties in accordance with Article VI.B.2.

XV.D. THIS PARAGRAPH HAS BEEN LEFT BLANK INTENTIONALLY.

XV.E. Liabilities for Penalties and/or Assessments.

Any State or Federal regulation, penalties and/or assessments which may be lawfully applied to Operator as the result of any action by him in his conduct of the operations hereunder, shall be shared by the

Operator and the Non-Operators in proportion to their interests as set forth in Exhibit "A" hereof; provided there is an absence of fraud or intentional misrepresentation or other acts of misconduct by the Operator.

XV.F. Sequence of Operations.

Where a well, authorized under the terms of this Operating Agreement by all parties (or by less than all parties under Article VI.B.) has been drilled to the authorized depth or the objective formation and the parties participating in the well cannot agree on the sequence and timing of further operations regarding such well, the following proposals shall control in the order enumerated below:

- (1) a proposal to do additional logging, coring or testing;
- (2) a proposal to attempt to complete the well at either the authorized depth or in the objective formation;
- (3) a proposal to deepen the well;
- (4) a proposal to sidetrack the well; and
- (5) a proposal to plug back and attempt to complete the well.

It is provided, however, that if the hole is in such a condition that, in the opinion of the Operator, a reasonably prudent Operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy of losing the same prior to completing the well at the authorized depth or objective formation, the operation which, in the opinion of the Operator, is then less likely to jeopardize the well will be conducted. If the parties are equally divided as to whether such operations may jeopardize the well, the Operator's opinion will prevail. It is further understood that if some, but not all parties, elect to participate in the additional logging, coring or testing, they may do so at their sole cost and the party or parties not participating in such operations shall not be entitled to the logs, cores or the results of the tests but shall suffer no other penalty.

If the Operator is not successful with its first (or subsequent) completion attempt(s) and the Operator, or Non-Operator, recommends a completion attempt in another zone, then any previous Non-Consent Parties shall be entitled to notice and the option to participate regardless of their election on a previous completion attempt; however, to have such options, such parties must have participated in all operations leading up to the initial completion attempt (for the purposes hereof, the conducting of sole benefit logging, coring, or testing shall not exclude any other party from the right to participate), and, if they did not pay their share of the casing and cementing in the initial completion attempt, they shall pay their share of the costs of casing and cementing to the zone being contemplated for completion (which shall be calculated by multiplying the total costs of casing and cementing times the lowest depth of the zone being contemplated for completion divided by the total depth of the casing in the hole). The money received by Operator shall be allocated to the Consenting Parties in the proportion that they paid for the casing and cementing. This option is a recurring right.

XV.G Memorandum of Operating Agreement.

The parties hereto agree to execute the Memorandum of Operating Agreement attached hereto as Exhibit "G". This instrument may be executed in one document signed by all the parties or in separate documents which shall be counterparts hereof, or by an instrument or instruments of ratification of an executed counterpart or counterparts. If executed in separate counterparts, all such counterparts and all ratifications thereof when executed by one or more parties shall constitute but one and the same instrument. The failure of one or more parties to execute this instrument, a counterpart hereof or a ratification hereof shall not in any manner affect the validity and binding effect of same as to the parties who execute said instrument. For recordation purposes, the operator or its successor operator, is authorized to detach the signature and acknowledgment pages from one or more counterparts and to attach them for filing with any other executed counterpart.

XV.H. Additional Costs to Plugging and Abandonment.

Notwithstanding anything to the contrary contained in Article VI.E.1. and Article VII.D.1., Option No. 2, it is agreed that where a party participates in the drilling of a well but then is a Non-Consenting Party to a subsequent operation on such a well that directly or indirectly causes additional plugging and abandoning costs to be incurred above what was normal and reasonable, then such additional plugging and abandoning costs shall be borne solely by the Consenting Parties thereto (proportionately to their aggregate interest in the subsequent operation).

XV.I. Bankruptcy.

If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Operating Agreement should be held to be an executory contract within the meaning of 11 U.S.C. §365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy code as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

XV.J. Operations by David H. Arrington Oil & Gas, Inc.

The parties hereto acknowledge that David H. Arrington Oil & Gas, Inc., a contract operator for David H. Arrington, may or may not own any interest in the Contract Area. In the event that David H. Arrington, or any of his affiliates, single subsidiary, parent or successor corporation/entity no longer owns an interest in the Contract Area, David H. Arrington Oil & Gas, Inc. will be deemed to have resigned as Operator and a successor operator shall be selected pursuant to Article V.B.2 hereof.

XV.K. Required Well

If any well proposed to be drilled, reworked, sidetracked, deepened, recompleted or plugged back is necessary (i) to maintain a lease (or a portion thereof) covered by this Operating Agreement in force or (ii) pursuant to an agreement to earn a lease(s) (or portion thereof) which would otherwise expire unless such operation is conducted, then in lieu of Article VI.B.2., each Non-Consenting Party shall assign to the Consenting Parties all of such Non-Consenting Party's interest in and to the lease(s) or a portion thereof which would be lost or not earned if such well were not drilled. Said assignment shall be promptly due upon commencement of said operation by the Consenting Parties and if the assignment is in favor of more than one party, the assigned interest shall be shared by the Consenting Parties in the proportions that the interest that each bears to the interest of all Consenting Parties unless otherwise agreed to in writing. Except for burdens allowed under Article III.B. or referenced to in Exhibit "A", such assignment shall be free and clear of all overriding royalty interests, production payments, mortgage, liens or other encumbrances placed thereon by or resulting from the Non-Consenting Party's ownership but shall otherwise be without warranty of title, express or implied. For purposes of defining necessary operations to maintain a lease or agreement in force which would otherwise expire, such operations shall be deemed necessary if proposed on or before one hundred twenty (120) days prior to the date on which any such lease or agreement (or other portions thereof) would expire in the absence of drilling of such well and only as such well is designated as a "necessary well" in the proposal to drill same.

XV.L. Limitations on Additional Proposals

It is specifically understood that no proposal shall be made for the drilling of a well (including a proposal to re-enter, deepen or sidetrack an abandoned well) while there is an outstanding proposal for such an operation and no such proposal shall include more than one well at a time. If a proposal for such an operation is made while a well is being drilled, deepened or sidetracked, then the period provided for in Article VI.B. in which an election to participate in such operations is to be made shall be suspended until thirty (30) days after production pipe is set or a decision is made by the parties to plug and abandon such well, whichever first occurs. This paragraph shall not apply where the well or other operations to which notice is given is a well or operations (i) required under the terms of an oil and gas lease or other contract, or (ii) required to maintain an oil and gas lease or other contract, or a portion thereof in force, or (iii) required by governmental regulations, court orders or other mandate. For the purposes of defining necessary operations to maintain an oil and gas lease or other contract in force which would otherwise expire, such operations shall be deemed necessary if proposed on or before one hundred twenty (120) days prior to the date on which any such oil and gas lease or contract, or a portion thereof, would expire in the absence of conducting such necessary operation and only as such necessary operation is designated as a necessary operation in the proposal of same.

END OF ARTICLE XV.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 20th day of November, (year) 2003.

David H. Arrington Oil & Gas, Inc., who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those / in Articles which have been clearly marked have been made to the form.

OPERATOR

DAVID H. ARRINGTON OIL & GAS, INC.

By: David H. Arrington, President

NON-OPERATORS

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

MARSHALL & WINSTON, INC.

By: Clarence R. Chandler
Clarence R. Chandler, President

DAVID PETROLEUM CORP.

ATTEST:

By: Charles G. Rice
Charles G. Rice, Sec.-Treasurer

REVISED (1/26/2004)
EXHIBIT "A"

Attached to Operating Agreement dated November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. as Operator, and Chesapeake Exploration Limited Partnership, et al, as Non-Operators, covering the S/2 Section 26, T15S-R34E, Lea County, N. M.

1. Contract Area and Restrictions, if any, as to Depths, Formations or Substances:

S/2 Section 26, T15S-R34E, Lea County, New Mexico

All Depths

2. Interest of the Parties:

	<u>BEFORE PAYOUT INTEREST</u>	<u>AFTER PAYOUT INTEREST</u>
David H. Arrington Oil & Gas, Inc.	21.2423601%	*TO BE DETERMINED
Chesapeake Exploration Limited Partnership	32.291666%	32.291666%
David Petroleum Corp.	.706250%	.706250%
Yates Petroleum Corporation	1.021563%	1.021563%
Yates Drilling Company	.145937%	.145938%
ABO Petroleum Corporation	.145937%	.145938%
Myco Industries, Inc.	.145937%	.145938%
McMillan Ventures, LLC	.333125%	.333125%
McMillan Production Company, Inc.	.264781%	.264781%
Permian Exploration Corporation	.298969%	.298969%
Michael A. and Teresa L. McMillan	.031250%	.031250%
Edward N. David	.015625%	.015625%
Keith E. McKamey	.007813%	.007813%
William B. Owen	.007813%	.007813%
Marshall & Winston, Inc.	26.934817%	*TO BE DETERMINED
Steve Holifield, Sr.	8.072916%	8.072916%
Quanah Exploration Limited Partnership	8.333000%	* TO BE DETERMINED
	100.000000 %	TO BE DETERMINED

*At Payout, David H. Arrington Oil & Gas, Inc. has a one (1) time election to back-in for 6.666% of 8/8ths of Marshal & Winston, Inc.'s 26.934817% of 8/8ths interest and 2.083% of 8/8ths of Quanah Exploration Limited Partnership 8.333% of 8/8ths interest in the Green Eyed Squealy Worm 26-1 well.

3. Oil and Gas Leases Subject to this Agreement:

Lease 1: NM 21-6-0
Date: March 16, 2000
Recorded: Book 1013 at Page 692
Lessor: June D. Speight
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: S/2SE/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico
As amended by Amendment dated January 19, 2003, recorded at Book 1204, Page 803

Lease 2: NM 21-3-1
Date: March 30, 2000
Recorded: Book 1013 at Page 92
Lessor: Marshall & Winston, Inc.
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: INSOFAR & ONLY INSOFAR as lease covers the N/2SE/4 of
Section 26, T-15-S, R-34-E, N.M.P.M., Lea County, New Mexico
As amended by Amendment dated December 9, 2002, recorded at Book 1205, Page 816

Lease 3: NM 21-3-2
Date: March 30, 2000
Recorded: Book 1013 at Page 689
Lessor: Winston Partners, Ltd.
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: N/2SE/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated January 10, 2003, recorded at Book 1204, Page 801

Lease 4: NM 21-7-0
Date: April 1, 2000
Recorded: Book 1021 at Page 718
Lessor: Bank of America, N.A., Trustee of the Gay Crabb Karger Trust,
the Billy Easley Trust and the Lawrence E. Karger Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: NE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated February 14, 2003, recorded at Book 1244, Page 836

Lease 5: NM 21-5-2
Date: June 21, 2000
Recorded: Book 1029 at Page 127
Lessor: H-D Mineral Properties
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: W/2SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated January 28, 2003, recorded at Book 1204, Page 799

Lease 6: NM 21-5-1
Date: March 28, 2000
Recorded: Book 1013 at Page 727
Lessor: Bobby V. Bell and wife, Christine Jane Bell
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: W/2SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated December 3, 2002, recorded at Book 1193, Page 143

Lease 7: NM 21-2-10
Date: February 1, 2002
Recorded: Book 1142 at Page 787
Lessor: Don C. Dennis, Individually and as Trustee of the J.M. Dennis
Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 8: NM 21-2-9
Date: February 1, 2002
Recorded: Book 1140 at Page 706
Lessor: Jessie A. Dennis, sole heir of Barron Dennis
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 9: NM 21-2-8
Date: February 1, 2002
Recorded: Book 1139 at Page 683
Lessor: JoeAnn DeNitto
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 10: NM 21-2-11
Date: May 9, 2003
Recorded: Book 1232 at Page 800
Lessor: Angela McAlpin for life by and through her attorney-in-fact,
Roger Davidson
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 11: NM 21-2-7
Date: December 12, 2000
Recorded: Book 1059 at Page 438
Lessor: Lora B. McAlpin
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 12:

Date: January 22, 2003, effective March 17, 2003
Recorded: Book 1205 at Page 432
Lessor: Sandra Lee Ponder Joy
Lessee: David Petroleum Corp.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 13:

Date: March 16, 2003
Recorded: Book 1213 at Page 653
Lessor: Western Commerce Bank, Trustee of the Frances J. Freeman
Revocable Trust
Lessee: David Petroleum Corp.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 14:

Date: NM 21-2-4
June 5, 2000
Recorded: Book 1029 at Page 292
Lessor: Wells Fargo Bank, New Mexico, N.A., successor by merger to
Norwest Bank, New Mexico, N.A., Trustee for the Fredia Irene
Madding Wright Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated May 21, 2003, recorded at Book 1232, Page 797, and
As amended by Amendment dated May 28, 2003, recorded at Book 1232, Page 794

Lease 15:

Date: NM 21-2-6
January 5, 2001
Recorded: Book 1059 at Page 436
Lessor: Charlise E. Savage
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 16:

Date: NM 21-2-5
January 5, 2001
Recorded: Book 1061 at Page 451
Lessor: G.G. Gore
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

4. Addresses of the Parties for Notice Purposes:

David H. Arrington Oil & Gas, Inc.
214 W. Texas, Suite 400 (zip 79701)
PO Box 2071
Midland, TX 79702
Phone: 432-682-6685
Fax: 432-682-4139

Chesapeake Exploration Limited Partnership
6100 N. Western (zip 73118)
PO Box 18496
Oklahoma City, OK 73154
Phone: 405-879-9414
Fax: 405-879-9535

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Yates Drilling Company
105 South Fourth Street
Artesia, NM 88210

ABO Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Myco Industries, Inc.
105 South Fourth Street
Artesia, NM 88210

David Petroleum Corp.
116 West 1st Street
Roswell, NM 88201

McMillan Ventures, LLC
118 West 1st Street
Roswell, NM 88201

McMillan Production Company, Inc.
118 West 1st Street
Roswell, NM 88201

Permian Exploration Corporation
118 West 1st Street
Roswell, NM 88201

Michael A. and Teresa L. McMillan
118 West 1st Street
Roswell, NM 88201

Edward N. David
116 West 1st Street
Roswell, NM 88201

Keith E. McKamey
116 West 1st Street
Roswell, NM 88201

William B. Owen
116 West 1st Street
Roswell, NM 88201

Marshall & Winston, Inc.
P. O. Box 50880
Midland, TX 79710-0880
Phone: 432-684-6373

Steve L. Holifield, Sr.
P. O. Box 60910
Midland, TX 79711
Phone: 432-563-3645

EXHIBIT "A"

Attached to Operating Agreement dated November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. as Operator, and Chesapeake Exploration Limited Partnership, et al, as Non-Operators, covering the S/2 Section 26, T15S-R34E, Lea County, N. M.

1. **Contract Area and Restrictions, if any, as to Depths, Formations or Substances:**

S/2 Section 26, T15S-R34E, Lea County, New Mexico

2. **Interest of the Parties:**

	<u>BEFORE PAYOUT INTEREST</u>	<u>AFTER PAYOUT INTEREST</u>
David H. Arrington Oil & Gas, Inc.	29.575601%	*TO BE DETERMINED
Chesapeake Exploration Limited Partnership	32.291666%	32.291666%
David Petroleum Corp.	3.125000%	3.125000%
Marshall & Winston, Inc.	26.934817%	*TO BE DETERMINED
Steve Holifield, Sr.	8.072916%	8.072916%

*At Payout, David H. Arrington Oil & Gas, Inc. has a one (1) time election to back-in for 6.666% of 8/8ths of Marshal & Winston, Inc.'s 26.934817% of 8/8ths interest in the Green Eyed Squealy Worm 26-1 well.

3. **Oil and Gas Leases Subject to this Agreement:**

Lease 1: NM 21-6-0
Date: March 16, 2000
Recorded: Book 1013 at Page 692
Lessor: June D. Speight
Lessee: David H. Arrington Oil & Gas
Lands Covered: S/2SE/4 of Section 26, T-15
Lea County, New Mexico

As amended by Amendment dated January 19, 2003, recorded at Book 1204, Page 803

Lease 2: NM 21-3-1
Date: March 30, 2000
Recorded: Book 1013 at Page 92
Lessor: Marshall & Winston, Inc.
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: INSO FAR & ONLY INSO FAR as lease covers the N/2SE/4 of
Section 26, T-15-S, R-34-E, N.M.P.M., Lea County, New Mexico

As amended by Amendment dated December 9, 2002, recorded at Book 1205, Page 816

Lease 3: NM 21-3-2
Date: March 30, 2000
Recorded: Book 1013 at Page 689
Lessor: Winston Partners, Ltd.
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: N/2SE/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated January 10, 2003, recorded at Book 1204, Page 801

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Date: April 1, 2000
Recorded: Book 1021 at Page 718
Lessor: Bank of America, N.A., Trustee of the Gay Crabb Karger Trust,
the Billy Easley Trust and the Lawrence E. Karger Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: NE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated February 14, 2003, recorded at Book 1244, Page 836

Lease 5: NM 21-5-2
Date: June 21, 2000
Recorded: Book 1029 at Page 127
Lessor: H-D Mineral Properties
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: W/2SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,

*copy to
Sherry
1.21.04*

Lea County, New Mexico

As amended by Amendment dated January 28, 2003, recorded at Book 1204, Page 799

Lease 6: NM 21-5-1
Date: March 28, 2000.
Recorded: Book 1013 at Page 727
Lessor: Bobby V. Bell and wife, Christine Jane Bell
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: W/2SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

As amended by Amendment dated December 3, 2002, recorded at Book 1193, Page 143

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Date: February 1, 2002
Recorded: Book 1142 at Page 787
Lessor: Don C. Dennis, Individually and as Trustee of the J.M. Dennis Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 8: NM 21-2-9
Date: February 1, 2002
Recorded: Book 1140 at Page 706
Lessor: Jessie A. Dennis, sole heir of Barron Dennis
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
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Lea County, New Mexico

Lease 10: NM 21-2-11
Date: May 9, 2003
Recorded: Book 1232 at Page 800
Lessor: Angela McAlpin for life by and through her attorney-in-fact,
Roger Davidson
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 11: NM 21-2-7
Date: December 12, 2000
Recorded: Book 1059 at Page 438
Lessor: Lora B. McAlpin
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 12:
Date: January 22, 2003, effective March 17, 2003
Recorded: Book 1205 at Page 432
Lessor: Sandra Lee Ponder Joy
Lessee: David Petroleum Corp.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 13:
Date: March 16, 2003
Recorded: Book 1213 at Page 653
Lessor: Western Commerce Bank, Trustee of the Frances J. Freeman Revocable Trust
Lessee: David Petroleum Corp.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 14: NM 21-2-4

Lease 14: NM 21-2-4
Date: June 5, 2000
Recorded: Book 1029 at Page 292
Lessor: Wells Fargo Bank, New Mexico, N.A., successor by merger to
Norwest Bank, New Mexico, N.A., Trustee for the Fredia Irene
Madding Wright Trust
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico
As amended by Amendment dated May 21, 2003, recorded at Book 1232, Page 797, and
As amended by Amendment dated May 28, 2003, recorded at Book 1232, Page 794

Lease 15: NM 21-2-6
Date: January 5, 2001
Recorded: Book 1059 at Page 436
Lessor: Charlsie E. Savage
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

Lease 16: NM 21-2-5
Date: January 5, 2001
Recorded: Book 1061 at Page 451
Lessor: G.G. Gore
Lessee: David H. Arrington Oil & Gas, Inc.
Lands Covered: SE/4SW/4 of Section 26, T-15-S, R-34-E, N.M.P.M.,
Lea County, New Mexico

4. Addresses of the Parties for Notice Purposes:

David H. Arrington Oil & Gas, Inc.
214 W. Texas, Suite 400 (zip 79701)
PO Box 2071
Midland, TX 79702
Phone: 432-682-6685
Fax: 432-682-4139

Chesapeake Exploration Limited Partnership
6100 N. Western (zip 73118)
PO Box 18496
Oklahoma City, OK 73154
Phone: 405-879-9414
Fax: 405-879-9535

David Petroleum Corp.
116 West 1st Street
Roswell, NM 88201

Marshall & Winston, Inc
P. O. Box 50880
Midland, TX 79710-0880
Phone: 432-684-6373

Steve L. Holifield, Sr.
P. O. Box 60910
Midland, TX 79711
Phone: 432-563-3645

THERE IS NO EXHIBIT "B"

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. as Operator, and Chesapeake Exploration Limited Partnership, et al, as Non-Operators, covering the S/2 Section 26, T15S-R34E, Lea County, New Mexico

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

- A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within thirty (30) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
- B. Each Non-Operator shall pay its proportion of all bills within thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate ^{plus 2%} /in effect at Chase Manhattan Bank, New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

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5. **Audits**

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

3. **Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. **Employee Benefits**

Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. **Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. **Abandonment and Reclamation**

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. **Communications**

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. **Other Expenditures**

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. **Overhead - Drilling and Producing Operations**

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(☒) Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

() shall be covered by the overhead rates, or
(☒) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

(☒) shall be covered by the overhead rates, or
() shall not be covered by the overhead rates.

A. **Overhead - Fixed Rate Basis**

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 6,000.00
(Prorated for less than a full month)

Producing Well Rate \$ 600.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) **Drilling Well Rate**

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
 - (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
 - (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
 - (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
 - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

- (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
 - (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to Operating Agreement dated November 20, 2003, by and between David H. Arrington Oil & Gas, Inc. as Operator, and Chesapeake Exploration Limited Partnership, et al, as Non-Operators, covering the S/2 Section 26, T15S-R34E, Lea County, New Mexico

INSURANCE REQUIREMENTS

Operator and/or Contractor shall carry for the benefit and expense of the joint account, insurance to cover its operations pursuant to the terms of this Agreement.

- (A) WORKER'S COMPENSATION INSURANCE as required by the laws of the state in which operations will be conducted and EMPLOYEE'S LIABILITY INSURANCE with a limit of not less than \$500,000 or as required by law.
- (B) GENERAL LIABILITY INSURANCE with limits of \$1,000,000 for each occurrence, bodily injury or property damage, which includes seepage and pollution coverage only on a limited basis, and a limit of \$100,000 fire damage and a general aggregated limit of \$2,000,000; plus excess liability coverage of \$5,000,000 per occurrence and not less than \$2,000,000 aggregated (excludes asbestos, watercraft and auto).
- (C) AUTOMOBILE LIABILITY INSURANCE (including all owned and non-owned automobiles) with a combined single limit of \$1,000,000 for bodily injury or property damage.

For more particular details as to the above coverages, deductibles and specific exclusions, please refer to insurance certificates or notify our office about specific information requests.

No other insurance will be purchased for the joint account without the consent of the parties hereto. Any party, individually, may procure and maintain at its own cost and expense, such other insurance as it deems proper to protect itself against claims and such shall inure to the benefit of such party; provided, however, that each such insurance policy shall contain a "Waiver of Subrogation" in favor of each non-operator not named as an insured in such policy, or if such waiver is not secured, such non-operator shall indemnify and hold harmless other parties to the agreement against any claim of the insurance carrier against such party by subrogation or otherwise.

END OF EXHIBIT "D"

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY AND
NON-DISCRIMINATION SUPPLEMENT

Attached to and made a part of that certain Operating Agreement dated
11/20/2003 by and between DAVID H. ARRINGTON OIL & GAS INC., as
 Operator, and CHESAPEAKE EXPLORATION LIMITED, as Non-
 Operator. PARTNERSHIP, ET AL

The term "Contractor", as used herein shall mean the party designated or acting as contractor, Operator or Seller in the foregoing agreement, of which this supplement is a part.

During the performance of this contract, Contractor agrees as follows:

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. Contractor will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post, in conspicuous places available to employees and applications for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.

2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

5. The Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

6. In the event of Contractor's noncompliance with the non-discrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part, and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the

1 contracting agency may direct as a means of enforcing such provision, including sanctions
2 of noncompliance; provided, however, that in the event the Contractor becomes involved in,
3 or is threatened with, litigation with a subcontractor or vendor as a result of such direction
4 by the contracting agency, the Contractor may request the United States to enter into such
5 litigation to protect the interests of the United States.

6
7 Contractor acknowledges that it may be required to file Standard Form 100 (EEO-
8 1) promulgated jointly by the Office of Federal Contract Compliance, the Equal
9 Employment Opportunity Commission and Plans for Progress, within thirty (30) days of
10 the date of contract award if such report has not been filed for the current year and
11 otherwise comply with or file such other compliance reports as may be required under
12 Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.
13 Contractor further acknowledges that it may be required to develop a written affirmative
14 action compliance program as required by the Rules and Regulations approved by the
15 Secretary of Labor under authority of Executive Order 11246 and supply the other party or
16 parties to the foregoing agreement with a copy of such program if they so request.
17
18

19 Contractor certifies that it does not and will not maintain or provide for its
20 employees any segregated facilities at any of its establishments, and that it does not and will
21 not permit its employees to perform their services at any location, under its control, where
22 segregated facilities are maintained. For this purpose it is understood that the phrase
23 "segregated facilities" includes facilities which are in fact segregated on a basis of race,
24 color, religion, or national origin, because of habit, local custom or otherwise. It is further
25 understood and agreed that maintaining or providing segregated facilities for its employees
26 or permitting its employees to perform their services at any location under its control where
27 segregated facilities are maintained is a violation of the equal opportunity clause required
28 by Executive Order 11246 of September 24, 1965. Contractor agrees to obtain similar
29 certification from its subcontractor prior to the award of subcontract which are not exempt
30 from the provisions of the equal opportunity clause.
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EXHIBIT "G"

Attached to Operating Agreement dated November 20, 2003, by and between David H. Arrington Oil & Gas, Inc., as Operator, and Chesapeake Exploration Limited Partnership, et al, Non-Operators, covering the S/2 Section 26, T15S-R34E, Lea County, New Mexico

MEMORANDUM OF OPERATING AGREEMENT

STATE OF NEW MEXICO }
 }
COUNTY OF LEA }

The undersigned parties (the "Parties") have entered into an Operating Agreement (the "Operating Agreement") dated November 20, 2003, naming **David H. Arrington Oil & Gas, Inc.** P.O. Box 2071, Midland, TX 79702, as Operator and covering the lands, oil and gas leasehold interests, and/or oil and gas fee interests described or identified below (the "Contract Area"):

S/2 SECTION 26, T15S-R34E, LEA COUNTY, NEW MEXICO

The Operating Agreement sets forth the rights and obligations of the Parties with respect to the exploration, development, and production of oil and gas from the Contract Area.

For and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties stipulate and agree that they have entered into the Operating Agreement which sets forth their rights and obligations and with respect to the exploration, development, and production of oil and gas from the Contract Area. Among other things, the Operating Agreement specifically provides for the following:

3. Each of the Parties other than Operator grants to Operator (i) a lien upon its oil and gas rights in the Contract Area and its share of oil and/or gas produced from the Contract Area located in the Contract Area to secure payment of its interest in all equipment and its share of expenses under the Operating Agreement, including the Operator's share of expenses under the Operating Agreement. Further, to the extent that Operator has a security interest in the Contract Area, Operator shall exercise the rights and remedies which the Contract Area is located in under the Uniform Commercial Code of the state in which the Contract Area is located to exercise the rights and remedies of a secured party thereunder. *See 1-26-04*
3. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's share of expenses under the Operating Agreement.
3. The Operating Agreement is not intended to create and expressly denies the creation of a partnership, joint venture or similar association for profit and the Parties expressly acknowledge that their rights and liabilities under the Operating Agreement are several and not joint or collective and that the Operating Agreement so provides.

Nothing herein is intended to limit, or may be construed to limit, the terms and provisions of the Operating Agreement or the Parties' rights and obligations hereunder. A full and complete copy of the Operating Agreement, including any amendments thereto, is available for inspection in Operator's offices during normal business hours at the address given above.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this instrument shall be effective as of November 20, 2003.

OPERATOR

DAVID H. ARRINGTON OIL & GAS, INC.

BY: _____
David H. Arrington, President

NON-OPERATOR

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

BY: _____
ITS: _____

DAVID PETROLEUM CORP.

BY: _____
ITS: _____

ATTEST:

By: Charles G. Rice
Charles G. Rice, Sec.-Treas.

MARSHALL & WINSTON, INC.

BY: Clarence R. Chandler
ITS: Clarence R. Chandler, President

STEVE L. HOLIFIELD, SR.

ACKNOWLEDGMENTS

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on this _____ day of _____, 2003, by David H. Arrington, President of David H. Arrington Oil & Gas, Inc., a Texas corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2003, by _____ of CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2003, by _____ of DAVID PETROLEUM CORP., a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on this 19th day of January, 2004, by Clarence R. Chandler, President of MARSHALL & WINSTON, INC., a Nevada, on behalf of said corporation.



Gina L. Brooks
Notary Public, State of Texas
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2003, by STEVE L. HOLIFIELD, SR.

Notary Public, State of _____
My commission expires: _____

MEMORANDUM OF OPERATING AGREEMENT

STATE OF NEW MEXICO }
 }
COUNTY OF LEA }

The undersigned parties (the "Parties") have entered into an Operating Agreement (the "Operating Agreement") dated November 20, 2003, naming **David H. Arrington Oil & Gas, Inc.**, 200 W. Texas, Suite 400, Midland, TX 79701, as Operator and covering the lands, oil and gas leasehold interests, and/or oil and gas fee interests described or identified below (the "Contract Area"):

S/2 SECTION 26, T15S-R34E, LEA COUNTY, NEW MEXICO

The Operating Agreement sets forth the rights and obligations of the Parties with respect to the exploration, development, and production of oil and gas from the Contract Area.

For and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties stipulate and agree that they have entered into the Operating Agreement which sets forth their rights and obligations and with respect to the exploration, development, and production of oil and gas from the Contract Area. Among other things, the Operating Agreement specifically provides for the following:

3. Each of the Parties other than Operator ("Non-Operators") grants to Operator (i) a lien upon its oil and gas rights in the Contract Area; (ii) a security interest in its share of oil and/or gas produced from the Contract Area; and (iii) a security interest in its interest in all equipment located in the Contract area, to secure payment of its share of expenses under the Operating Agreement, including any interests chargeable thereunder. Further, to the extent that Operator has a security interest under the Uniform Commercial Code of the state in which the Contract Area is located, Operator is entitled to exercise the rights and remedies of a secured party thereunder.
3. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's share of expenses under the Operating Agreement.
3. The Operating Agreement is not intended to create and expressly denies the creation of a partnership, joint venture or similar association for profit and the Parties expressly acknowledge that their rights and liabilities under the Operating Agreement are several and not joint or collective and that the Operating Agreement so provides.

Nothing herein is intended to limit, or may be construed to limit, the terms and provisions of the Operating Agreement or the Parties' rights and obligations hereunder. A full and complete copy of the Operating Agreement, including any amendments thereto, is available for inspection in Operator's offices during normal business hours at the address given above.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this instrument shall be effective as of November 20, 2003.

OPERATOR

DAVID H. ARRINGTON OIL & GAS, INC.

BY: _____
David H. Arrington, President

NON-OPERATORS

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

BY: _____
ITS: _____

DAVID PETROLEUM CORP.

BY: _____
ITS: _____

ATTEST:

By: Charles G. Rice
Charles G. Rice, Sec.-Treas.

MARSHALL & WINSTON, INC.
BY: Clarence R. Chandler
ITS: Clarence R. Chandler, President

STEVE L. HOLIFIELD, SR.

ACKNOWLEDGMENTS

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on this _____ day of _____, 2003, by David H. Arrington, President of David H. Arrington Oil & Gas, Inc., a Texas corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2003, by _____ of CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

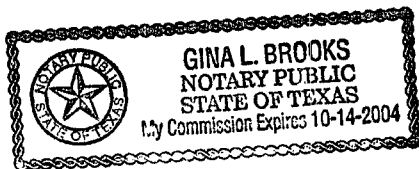
This instrument was acknowledged before me on this _____ day of _____, 2003, by _____ of DAVID PETROLEUM CORP., a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on this 19th day of January, 2003, by Clarence R. Chandler, President of MARSHALL & WINSTON, INC., a Nevada corporation, on behalf of said corporation. 2004.



Gina L Brooks
Notary Public, State of Texas
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2003, by STEVE L. HOLIFIELD, SR.

Notary Public, State of _____
My commission expires: _____

REVISED (1/26/2004)
EXHIBIT "G"

Attached to Operating Agreement dated November 20, 2003, by and between David H. Arrington Oil & Gas, Inc., as Operator, and Chesapeake Exploration Limited Partnership, et al, Non-Operators, covering the S/2 Section 26, T15S-R34E, Lea County, New Mexico

MEMORANDUM OF OPERATING AGREEMENT

STATE OF NEW MEXICO }
 }
COUNTY OF LEA }

The undersigned parties (the "Parties") have entered into an Operating Agreement (the "Operating Agreement") dated November 20, 2003, naming **David H. Arrington Oil & Gas, Inc.**, 200 W. Texas, Suite 400, Midland, TX 79701, as Operator and covering the lands, oil and gas leasehold interests, and/or oil and gas fee interests described or identified below (the "Contract Area"):

S/2 SECTION 26, T15S-R34E, LEA COUNTY, NEW MEXICO

ALL DEPTHS

The Operating Agreement sets forth the rights and obligations of the Parties with respect to the exploration, development, and production of oil and gas from the Contract Area.

For and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties stipulate and agree that they have entered into the Operating Agreement which sets forth their rights and obligations and with respect to the exploration, development, and production of oil and gas from the Contract Area. Among other things, the Operating Agreement specifically provides for the following:

3. Each of the Parties other than Operator ("Non-Operators") grants to Operator (i) a lien upon its oil and gas rights in the Contract Area; (ii) a security interest in its share of oil and/or gas produced from the Contract Area; and (iii) a security interest in its interest in all equipment located in the Contract area, to secure payment of its share of expenses under the Operating Agreement, including any interests chargeable thereunder. Further, to the extent that Operator has a security interest under the Uniform Commercial Code of the state in which the Contract Area is located, Operator is entitled to exercise the rights and remedies of a secured party thereunder.
3. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's share of expenses under the Operating Agreement.
3. The Operating Agreement is not intended to create and expressly denies the creation of a partnership, joint venture or similar association for profit and the Parties expressly acknowledge that their rights and liabilities under the Operating Agreement are several and not joint or collective and that the Operating Agreement so provides.

Nothing herein is intended to limit, or may be construed to limit, the terms and provisions of the Operating Agreement or the Parties' rights and obligations hereunder. A full and complete copy of the Operating Agreement, including any amendments thereto, is available for inspection in Operator's offices during normal business hours at the address given above.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this instrument shall be effective as of November 20, 2003.

OPERATOR

DAVID H. ARRINGTON OIL & GAS, INC.

BY: _____
David H. Arrington, President

NON-OPERATORS

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

BY: _____
ITS: _____

DAVID PETROLEUM CORP.

BY: _____
ITS: _____

MARSHALL & WINSTON, INC.

BY: _____
ITS: _____

STEVE L. HOLIFIELD, SR.

QUANAH EXPLORATION LIMITED PARTNERSHIP

BY: _____
ITS: _____

YATES PETROLEUM CORPORATION

BY: _____
ITS: _____

YATES DRILLING COMPANY

BY: _____
ITS: _____

ABO PETROLEUM CORPORATION

BY: _____
ITS: _____

MYCO INDUSTRIES, INC.

BY: _____
ITS: _____

MCMILLAN VENTURES, LLC

BY: _____
ITS: _____

MCMILLAN PRODUCTION COMPANY, INC.

BY: _____
ITS: _____

PERMIAN EXPLORATION CORPORATION

BY: _____
ITS: _____

MICHAEL A. MCMILLAN

TERESA L. MCMILLAN

EDWARD N. DAVID

KEITH E. MCKAMEY

WILLIAM B. OWEN

ACKNOWLEDGMENTS

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on this _____ day of _____, 2004, by David H. Arrington, President of David H. Arrington Oil & Gas, Inc., a Texas corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of DAVID PETROLEUM CORP., a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of MARSHALL & WINSTON, INC., a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by STEVE L. HOLIFIELD, SR.

Notary Public, State of _____
My commission expires: _____

STATE OF TEXAS }

COUNTY OF MIDLAND }

This instrument was acknowledged before me on this _____ day of _____, 2004, by James A. Davidson, _____, for QUANAH EXPLORATION LIMITED PARTNERSHIP, _____, on behalf of said _____.

Notary Public, State of: _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of YATES PETROLEUM CORPORATION, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of YATES DRILLING COMPANY, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of ABO PETROLEUM CORPORATION, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of MYCO INDUSTRIES, INC., a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____ of MCMILLAN VENTURES, LLC, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____, _____ of MCMILLAN PRODUCTION COMPANY, INC., a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by _____, _____ of PERMIAN EXPLORATION CORPORATION, a _____, on behalf of said _____.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by MICHAEL A. MCMILLAN and wife, TERESA L. MCMILLAN.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by EDWARD N. DAVID.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by KEITH E. MCKAMEY.

Notary Public, State of _____
My commission expires: _____

STATE OF _____ }

COUNTY OF _____ }

This instrument was acknowledged before me on this _____ day of _____, 2004, by WILLIAM B. OWEN.

Notary Public, State of _____
My commission expires: _____

OIL AND GAS LEASE
(PAID-UP)

THIS AGREEMENT is made the 30th day of March, 2000, between MARSHALL & WINSTON, INC., whose address is P. O. Box 50880, Midland, Texas 79710-0880 (hereinafter referred to as "Lessor"), and DAVID H. ARRINGTON OIL & GAS, INC., whose address is P. O. Box 2071, Midland, Texas 79702 (hereinafter referred to as "Lessee"), as follows:

WITNESSETH

1. Lessor, in consideration of Ten Dollars and No/100 (\$10.00) and other valuable consideration, of the royalties herein provided, and of Lessee's agreements herein, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling for and producing oil, gas and other hydrocarbons, laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, the following described land in Lea County, New Mexico:

Township 15 South, Range 34 East
Section 26: N/2 SE/4

Township 15 South, Range 35 East
Section 23: E/2, SE/4 NW/4, E/2 SW/4, NW/4 SW/4
Section 26: W/2
Section 27: S/2 SE/4, SE/4 SW/4
Section 34: NW/4 NE/4

For determining the amount of any payment hereinafter provided, said land is estimated to comprise 1,040.0 acres, whether there be more or less. Each tract, if more than one, shall be presumed to cover the number of acres shown for that tract.

2. Subject to the other provisions hereof, this lease shall be for a term of three (3) years from this date (hereinafter referred to as "primary term") and as long thereafter as oil or gas is produced in paying quantities from said land or from land pooled therewith.

3. The royalties to be paid by Lessee to Lessor are:

a. On oil one-fourth (1/4th) of that produced and saved from said land, the same to be delivered monthly free of cost to Lessor at the wells, or to the credit of Lessor into the pipeline to which the wells may be connected.

b. On gas, casinghead gas and all their derivatives, elements, component parts and marketable attributes, one-fourth (1/4th) of the amount realized at the place where the gas or the element involved is sold or utilized, payable monthly. Provided, however, that if the gas or gas and condensate is discovered on said land, Lessee shall promptly notify Lessor of such discovery, and Lessor shall have the option to take in kind and separately market its said royalty share of all gas and condensate produced, in lieu of receiving its stated fraction of market value of said products.

c. All oil and gas proceeds payable to Lessor under this lease shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting or any similar charge in marketing the oil and gas produced hereunder.

d. While there is a gas well on this lease (classified as such by appropriate governmental authority) capable of producing in paying quantities but gas is not being sold or used, and this lease is not then otherwise being held in force, Lessee shall pay or tender as royalty to the owner of such royalty direct to the address below, on or before sixty (60) days after the date on which such well is shut in, and annually thereafter, the sum of \$1,040.00 per well for each shut-in gas well, and if such payment is made, it will be considered that gas is being produced within

the meaning of Paragraph 2 hereof, provided, that this lease may not be extended by payment of such annual shut-in gas well payments in excess of two (2) annual periods.

4. It is specifically provided that this is a paid-up lease during the term set out above as "primary term" and there shall be no obligation or liability on the Lessee to make any shut-in royalty payment or other payment during said primary term, and without any such payment this lease shall remain in force and effect during said primary term.

5. Lessee may, at any time, execute and deliver to Lessor and place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. If prior to discovery of oil or gas on said land Lessee should drill a dry hole or dry holes thereon, or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter or, if it be within the primary term, commences or resumes the payment or tender of rentals, on or before the rental paying date next ensuing after the expiration of three (3) months from the date of completion of dry hole or cessation of production. If, at the expiration of the primary term, oil or gas is not being produced on said land but Lessee is then engaged in drilling or reworking any well, this lease shall remain in force so long as such drilling or reworking is prosecuted continuously and with due diligence; and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land in paying quantities.

7. Lessee may at any time during the term of or within six (6) months after the expiration of this lease remove all property and fixtures, including casing, placed by Lessee on said land.

8. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. No change in the ownership of the land or assignment of rentals or royalties shall be binding on Lessee until after Lessee has been furnished with a written transfer or assignment or a copy thereof.

9. After the discovery of oil, gas or other hydrocarbons in paying quantities on said premises or on directly offsetting lands, Lessee shall reasonably develop the acreage retained hereunder.

10. All expressed and implied covenants of this lease shall be subject to all otherwise applicable federal and state laws, executive orders and rules or regulations, and this lease shall not be terminated in whole or in part nor Lessee held liable for damages for failure to comply therewith if compliance is prevented by or if such failure is the result of any such law, order, rule or regulation.

11. This lease is granted without warranty of title, either express or implied, and covers only Lessor's present interest in said land. If Lessor owns an interest in said land less than the entire fee simple estate, the royalties and rentals to be paid Lessor shall be reduced proportionately.

12. Lessee is hereby granted the right to consolidate or unitize this lease, the land covered by it or any part or parts thereof as to all strata or any stratum with any other contiguous land, lease, leases or part thereof as to all strata or any stratum for the production of oil or gas. Consolidation in one or more instances shall not exhaust the right of Lessee to consolidate this lease or portion of the oil and gas estate into other or different units. Units consolidated for oil hereunder shall not exceed forty (40) acres plus a tolerance of ten percent (10%) thereof, and units consolidated for gas hereunder shall not exceed six hundred forty (640) acres plus a tolerance of ten percent (10%) thereof; provided that if any federal or state law, executive order, rule or regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable in whole or in part on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable. Lessee shall file written unit designation in the county in which said land is located. Such units shall be designated before the commencement of wells. Drilling or reworking operations and production on any part of the consolidated acreage shall be treated for all purposes hereof as if such drilling or reworking operations were upon or such production were from the land described in this lease, whether the well or wells be located on the land covered by this lease or not. The entire acreage consolidated into a unit shall be treated for all purposes, except the payment of royalties on production from the consolidated unit, as if it were included in this lease. In lieu of the royalties herein provided, Lessor shall receive on production from a unit so consolidated only such portion of the royalty stipulated herein as the amount of its

acreage placed in the unit, or his or its royalty interest therein, on an acreage basis, bears to the total acreage so consolidated in the particular unit involved. Provided, however, that if any such consolidation less than all of the land covered hereby is included in a unit created pursuant to this paragraph, and if this lease as to the leased land lying outside the boundary of such unit is not otherwise maintained in force by some other provision hereof, then this lease will terminate as to all land not included in such consolidated unit, effective at the end of the primary term hereof.

13. Lessee agrees to furnish Lessor, at the request of Lessor, free of charge, one legible copy of any and all well or lease data, information or reports concerning any well, proposed well or any transaction affecting the leased premises when such data, information or reports become available, including, but not limited to, acoustical, electrical, gamma ray, neutron, spectral or any other type log, drilling reports, completion reports, potential tests, drill stem tests, plugging and abandoning reports, assignments, drilling opinions, division order opinions or any other title opinions that affect title to said lands. All such data, information and reports shall, when requested and available, be mailed direct to Lessor at the address set out above.

14. At the end of the primary term, if Lessee is engaged in drilling operations or if Lessee has completed a well on the leased premises either as a dry hole or a commercial producer within one hundred eighty (180) days prior to the expiration of the primary term, this lease shall remain in effect so long as operations are commenced and prosecuted with a cessation of no more than one hundred eighty (180) days between the completion of one well on said land as a well capable of producing oil and/or gas in paying quantities or a dry hole and commencement of drilling of the next well on said land. Completion shall be considered the date the well reaches total depth. Commencement shall be considered the date a rig capable of reaching total depth is placed on location.

As used herein, the term "proration unit" means a tract as nearly in the form of a square as possible allocated by the appropriate governmental regulatory body to a well, which tract is of such size as to entitle the well to a full allowable. Anything herein to the contrary notwithstanding, this lease will terminate at the end of the primary term or at the end of any continuous development program as herein provided as to the following:

(a) Each proration unit on which a dry hole has been drilled, and each undrilled proration unit; and

(b) All horizons below 100 feet below the deepest depth drilled on each proration unit.

15. At the end of the primary term or any extensions allowed hereunder and at the request of Lessor, Lessee agrees to prepare and deliver a release of all lands and horizons not earned under this lease.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

ATTEST:

MARSHALL & WINSTON, INC.

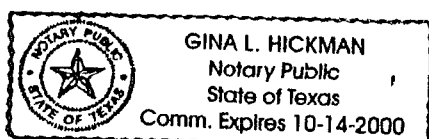
By: Charles G. Rice
Charles G. Rice
Secretary-Treasurer

By: Clarence R. Chandler
Clarence R. Chandler
President
Tax I. D. #95-0976450

STATE OF TEXAS

COUNTY OF MIDLAND

This instrument was acknowledged before me on this 30th day of March, 2000, by CLARENCE R. CHANDLER, President of MARSHALL & WINSTON, INC., a Nevada corporation, on behalf of said corporation.



Gina L. Hickman
Notary Public, State of Texas

OIL AND GAS LEASE
(PAID-UP)

THIS AGREEMENT is made the 30th day of March, 2000, between WINSTON PARTNERS, LTD., whose address is % Sargent Management, 4800 First Bank Place, Minneapolis, Minnesota 55402 (hereinafter referred to as "Lessor"), and DAVID H. ARRINGTON OIL & GAS, INC., whose address is P. O. Box 2071, Midland, Texas 79702 (hereinafter referred to as "Lessee"), as follows:

WITNESSETH

1. Lessor, in consideration of Ten Dollars and No/100 (\$10.00) and other valuable consideration, of the royalties herein provided, and of Lessee's agreements herein, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling for and producing oil, gas and other hydrocarbons, laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, the following described land in Lea County, New Mexico:

Township 15 South, Range 34 East
Section 26: N/2 SE/4

For determining the amount of any payment hereinafter provided, said land is estimated to comprise 80.0 acres, whether there be more or less. Each tract, if more than one, shall be presumed to cover the number of acres shown for that tract.

2. Subject to the other provisions hereof, this lease shall be for a term of three (3) years from this date (hereinafter referred to as "primary term") and as long thereafter as oil or gas is produced in paying quantities from said land or from land pooled therewith.

3. The royalties to be paid by Lessee to Lessor are:

a. On oil one-fourth (1/4th) of that produced and saved from said land, the same to be delivered monthly free of cost to Lessor at the wells, or to the credit of Lessor into the pipeline to which the wells may be connected.

b. On gas, casinghead gas and all their derivatives, elements, component parts and marketable attributes, one-fourth (1/4th) of the amount realized at the place where the gas or the element involved is sold or utilized, payable monthly. Provided, however, that if the gas or gas and condensate is discovered on said land, Lessee shall promptly notify Lessor of such discovery, and Lessor shall have the option to take in kind and separately market its said royalty share of all gas and condensate produced, in lieu of receiving its stated fraction of market value of said products.

c. All oil and gas proceeds payable to Lessor under this lease shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting or any similar charge in marketing the oil and gas produced hereunder.

d. While there is a gas well on this lease (classified as such by appropriate governmental authority) capable of producing in paying quantities but gas is not being sold or used, and this lease is not then otherwise being held in force, Lessee shall pay or tender as royalty to the owner of such royalty direct to the address below, on or before sixty (60) days after the date on which such well is shut in, and annually thereafter, the sum of \$80.00 per well for each shut-in gas well, and if such payment is made, it will be considered that gas is being produced within the meaning of Paragraph 2 hereof, provided, that this lease may not be extended by payment of such annual shut-in gas well payments in excess of two (2) annual periods.

4. It is specifically provided that this is a paid-up lease during the term set out above as "primary term" and there shall be no obligation or liability on the Lessee to make any shut-in royalty payment or other payment during said primary term, and without any such payment this lease shall remain in force and effect during said primary term.

5. Lessee may, at any time, execute and deliver to Lessor and place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. If prior to discovery of oil or gas on said land Lessee should drill a dry hole or dry holes thereon, or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter or, if it be within the primary term, commences or resumes the payment or tender of rentals, on or before the rental paying date next ensuing after the expiration of three (3) months from the date of completion of dry hole or cessation of production. If, at the expiration of the primary term, oil or gas is not being produced on said land but Lessee is then engaged in drilling or reworking any well, this lease shall remain in force so long as such drilling or reworking is prosecuted continuously and with due diligence; and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land in paying quantities.

7. Lessee may at any time during the term of or within six (6) months after the expiration of this lease remove all property and fixtures, including casing, placed by Lessee on said land.

8. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. No change in the ownership of the land or assignment of rentals or royalties shall be binding on Lessee until after Lessee has been furnished with a written transfer or assignment or a copy thereof.

9. After the discovery of oil, gas or other hydrocarbons in paying quantities on said premises or on directly offsetting lands, Lessee shall reasonably develop the acreage retained hereunder.

10. All expressed and implied covenants of this lease shall be subject to all otherwise applicable federal and state laws, executive orders and rules or regulations, and this lease shall not be terminated in whole or in part nor Lessee held liable for damages for failure to comply therewith if compliance is prevented by or if such failure is the result of any such law, order, rule or regulation.

11. This lease is granted without warranty of title, either express or implied, and covers only Lessor's present interest in said land. If Lessor owns an interest in said land less than the entire fee simple estate, the royalties and rentals to be paid Lessor shall be reduced proportionately.

12. Lessee is hereby granted the right to consolidate or unitize this lease, the land covered by it or any part or parts thereof as to all strata or any stratum with any other contiguous land, lease, leases or part thereof as to all strata or any stratum for the production of oil or gas. Consolidation in one or more instances shall not exhaust the right of Lessee to consolidate this lease or portion of the oil and gas estate into other or different units. Units consolidated for oil hereunder shall not exceed forty (40) acres plus a tolerance of ten percent (10%) thereof, and units consolidated for gas hereunder shall not exceed six hundred forty (640) acres plus a tolerance of ten percent (10%) thereof; provided that if any federal or state law, executive order, rule or regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable in whole or in part on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable. Lessee shall file written unit designation in the county in which said land is located. Such units shall be designated before the commencement of wells. Drilling or reworking operations and production on any part of the consolidated acreage shall be treated for all purposes hereof as if such drilling or reworking operations were upon or such production were from the land described in this lease, whether the well or wells be located on the land covered by this lease or not. The entire acreage consolidated into a unit shall be treated for all purposes, except the payment of royalties on production from the consolidated unit, as if it were included in this lease. In lieu of the royalties herein provided, Lessor shall receive on production from a unit so consolidated only such portion of the royalty stipulated herein as the amount of its acreage placed in the unit, or his or its royalty interest therein, on an acreage basis, bears to the total acreage so consolidated in the particular unit involved. Provided, however, that if any such consolidation less than all of the land covered hereby is included in a unit created pursuant to this paragraph, and if this lease as to the leased land lying outside the boundary of such unit is not otherwise maintained in force by some other provision hereof, then this lease will terminate as to all land not included in such consolidated unit, effective at the end of the primary term hereof.

13. Lessee agrees to furnish Lessor, at the request of Lessor, free of charge, one legible copy of any and all well or lease data, information or reports concerning any well, proposed well or any transaction affecting the leased premises when such data, information or reports become available, including, but not limited to, acoustical, electrical, gamma ray, neutron, spectral or any other type log, drilling reports, completion reports, potential tests, drill stem tests, plugging and abandoning reports, assignments, drilling opinions, division order opinions or any other title opinions that affect title to said lands. All such data, information and reports shall, when requested and available, be mailed direct to Lessor at the address set out above.

14. At the end of the primary term, if Lessee is engaged in drilling operations or if Lessee has completed a well on the leased premises either as a dry hole or a commercial producer within one hundred eighty (180) days prior to the expiration of the primary term, this lease shall remain in effect so long as operations are commenced and prosecuted with a cessation of no more than one hundred eighty (180) days between the completion of one well on said land as a well capable of producing oil and/or gas in paying quantities or a dry hole and commencement of drilling of the next well on said land. Completion shall be considered the date the well reaches total depth. Commencement shall be considered the date a rig capable of reaching total depth is placed on location.

As used herein, the term "proration unit" means a tract as nearly in the form of a square as possible allocated by the appropriate governmental regulatory body to a well, which tract is of such size as to entitle the well to a full allowable. Anything herein to the contrary notwithstanding, this lease will terminate at the end of the primary term or at the end of any continuous development program as herein provided as to the following:

(a) Each proration unit on which a dry hole has been drilled, and each undrilled proration unit; and

(b) All horizons below 100 feet below the deepest depth drilled on each proration unit.

15. At the end of the primary term or any extensions allowed hereunder and at the request of Lessor, Lessee agrees to prepare and deliver a release of all lands and horizons not earned under this lease.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

WINSTON PARTNERS, LTD.

By: Steven M. Wyman
Steven M. Wyman, Partner

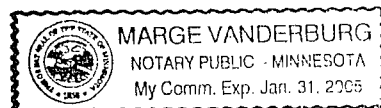
By: Frederick Winston
Frederick Winston, Partner
Tax I.D. #41-1395446

STATE OF MINNESOTA

COUNTY OF HENNEPIN

This instrument was acknowledged before me on this 7th day of April, 2000, by STEVEN M. WYMAN and FREDERICK WINSTON, Partners of WINSTON PARTNERS, LTD., a partnership, on behalf of said partnership.

Marge Vanderburg
Notary Public, State of Minnesota



JAMES D. HUFF
P. O. BOX 705
MINEOLA, TEXAS
75773
903-569-5913

December 5, 2002

Marshall & Winston, Inc.
P. O. Box 50880
Midland, Texas 79710-0880

Attention: Kevin Hammitt

Dear Mr. Hammitt:

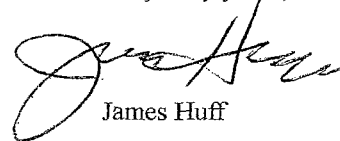
In accordance with my conversation, please find enclosed an Amendment of Oil & Gas Lease covering Marshall & Winston's mineral interest in the N/2SE/4 of Section 26, T15S, R34E, Lea County, NM. I have also enclosed a draft in the amount of \$2400.00, being \$40.00 per acre for your 60 net mineral acres. The Amendment makes the lease a 4 year lease instead of a 3 year lease. Hopefully we can get a well drilled during this time frame. I have also enclosed the same documents for Winston Partners LTD.

If you find these terms acceptable, please execute the document and have it notarized. Please mail the document to me in the enclosed envelope. You may then deposit the draft in your bank, or you can send it back to me and I will have the company send you a check. This way you can avoid any bank charges.

If you have any questions, you can call me at 903-569-5913 or 903-520-0309.

Your cooperation in this matter will be greatly appreciated.

Very truly yours,



James Huff



December 9, 2002

Mrs. Lynn Karls
24716 - 188th Street
Big Lake, Minnesota 55309

Re: N/2 SE/4 of Section 26,
Township 15 South, Range 34
East, Lea County, New Mexico

Dear Mrs. Karls:

Previously Marshall & Winston, Inc. and Winston Partners, Ltd. granted three-year oil and gas leases to David H. Arrington Oil & Gas, Inc. on the above captioned property. Arrington has approached us requesting a one-year extension of the lease with the payment of a \$40.00 per acre consideration. Marshall & Winston has agreed to do so.

It is our recommendation that Winston Partners extend its lease also. If the partnership is agreeable, the enclosed amendment should be properly signed and acknowledged, the enclosed draft should be endorsed and the complete packet deposited at the bank for collection.

If there are any questions, please call me.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Kevin Hammit', is written over a horizontal line.

Kevin Hammit
Land Manager

KH:glh

Enclosures

BANK DRAFT

(WITH RIGHT TO RE-DRAFT)

Not later than 10 banking days after arrival of this Bank Draft at collecting bank; and upon approval of properly executed instrument described hereon and attached hereto, and upon approval of title to same by Drawer.

DATE December 5, 2002

PAYEE Winston Partners, LTD.

AMOUNT \$ 800.00

DOLLARS Eight Hundred and No/100

CONSIDERATION FOR OGL 1 year extension, N/2SE/4, Section 26, T15S, R34E, NMPM

PROJECT West Salty Dog Prospect

Collect through:

Collecting Bank)

Wells Fargo Bank Texas, N.A.

P.O. Box 2097, Midland, TX 79702-2097

(915) 685-5000

NOT A CASH ITEM

NON-NEGOTIABLE

By:


James Huff, Drawer

*Upon receipt Collecting Bank please
call Dale Douglas (915) 682-5565*

The Drawer, Payee and endorsers hereof, and the Grantors of the instrument described hereon, do hereby constitute and appoint the collecting bank escrow agent to hold this draft for the time above specified subject alone to acceptance of payment hereof by the Drawer, within said time, and without any right of the Drawer, Payee, or endorsers hereof, or said Grantors, to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever in the collecting bank for refusal to return the same prior to such expiration. In the event this draft is not paid by Drawer within said time for any reason whatsoever, which shall be at Drawer's sole election, the collecting bank shall return the same to forwarding bank and no liability for payment or otherwise shall be attached to any of the parties hereto.

ENDORSEMENT OF PAYEE

PAYEE'S

ENDORSEMENT OF PAYEE

PAYEE'S

AMENDMENT OF OIL AND GAS LEASE

COUNTY OF LEA }
STATE OF NEW MEXICO }

REFERENCE is herein made to the following oil and gas lease, which has been executed and recorded in multiple counterparts, (hereinafter referred to as "Lease") reference to said lease being herein made for all purposes:

LESSOR: Marshall & Winston, Inc.

LESSEE: David H. Arrington Oil and Gas, Inc.

DATE: 3-30-2000

LANDS: N/2SE/4 of Section 26, T15S, R34E, NMPM, Lea County, NM

RECORDED: Volume 1013, Page 92 of the Official Public Record of Lea County, NM

WHEREAS, the undersigned Lessor and Lessee, being the current owners of the interest covered by the Lease do hereby desire to amend the primary term of said Lease.

NOW THEREFORE, for and in receipt of good and valuable consideration and other mutual benefits, Marshall & Winston, Inc., whose mailing address is P. O. Box 50880, Midland, Texas 79710-0880 ("Lessor") and David H. Arrington Oil & Gas, Inc., whose mailing address is P. O. Box 2071, Midland, Texas 79702, ("Lessee") do hereby amend said Lease as follows:

1. In paragraph 2, wherever the phrase "three (3) years" is used, it shall be deleted, and the phrase "four (4) years" shall be substituted in its place.

All other terms and conditions of said Lease shall remain as originally written.

Lessor and Lessee do hereby adopt, ratify and confirm the Lease and all of its terms and provisions as amended hereby. Lessor and Lessee do hereby agree that the Lease, as hereby amended, is a binding and subsisting oil, and gas lease.

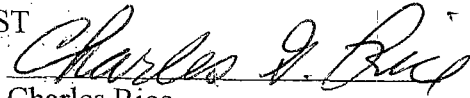
This amendment shall be binding upon the parties hereto, their respective heirs, successors, representatives and assigns.

EXECUTED Effective this 9th day of December, 2002.

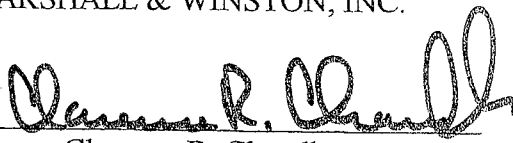
LESSOR:

MARSHALL & WINSTON, INC.

ATTEST


Charles Rice
Secretary-Treasurer

By:


Clarence R. Chandler
President

Tax I. D. #95-0976450

LESSEE:

David H. Arrington Oil & Gas, Inc.

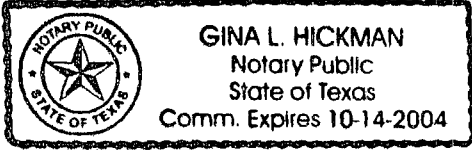
By:

David H. Arrington, President

ACKNOWLEDGMENTS

STATE OF TEXAS }
COUNTY OF MIDLAND }

This instrument was acknowledged before me this 9th day of December,
2002 by Clarence R. Chandler President of MARSHALL & WINSTON, INC., a Nevada
corporation, on behalf of said corporation.



Gina L. Hickman
Notary Public in and for the State of Texas

STATE OF TEXAS }
COUNTY OF MIDLAND }

This instrument was acknowledged before me this _____ day of _____,
2002 by David H. Arrington, President of David H. Arrington Oil & Gas, Inc., for the
consideration therein expressed and in the capacity therein stated.

Notary Public in and for the State of Texas

Oil & Gas Division Order & Marketing Agreement

David H. Arrington Oil & Gas, Inc.

P.O. Box 2071, Midland, Texas 79702

Phone: 915.682.6685

Facsimile: 915.682.4139

Well Name:	Green Eyed Squealy Worm #1
Property #:	1250-001
Effective Date:	First Sales
Owner Name:	See Attached Exhibit A
Revenue Interest:	See Attached Exhibit A

The undersigned are herein referred to as "Owners," and the Operator, David H. Arrington Oil & Gas, Inc., is herein referred to as "Arrington." The Owners and each of them certify that they are the legal owners of the interest set out below in the petroleum crude oil, condensate, distillate and other liquid hydrocarbons (herein referred to as "oil"), and the natural gas, casinghead gas and other gaseous hydrocarbons (herein referred to as "gas") that may be produced from wells now or hereafter completed on the following described lands:

**S/2 Section 26-T15S-R34E
Lea County, New Mexico**

The following covenants shall be binding upon each of the Owners, their heirs, personal representatives, successors and assigns:

Commencing on the Effective Date, as specified in the caption hereof, and until further written notice as described herein, Arrington is hereby authorized to receive such oil and/or gas into Arrington's possession or any person or company designated by Arrington, and to account for the proceeds received by Arrington according to the applicable division of interest.

Settlement shall be made to the Owners by check mailed to the Owners within 30-days after the end of the calendar month in which payment is received to Arrington from the purchaser of production. Arrington is authorized to withhold payment due any individual Owners until at least \$25 has been accumulated to the credit of said Owners.

Arrington is authorized to remit pursuant to the applicable division of interest until written notice to the contrary is received by Arrington. Each of the Owners agree to notify Arrington in writing of any change in their interest, and no transfer of interest shall be binding on Arrington until Arrington is furnished the original recorded instrument (or a copy thereof) or a transcript of proceeding which satisfactorily evidences such transfer, and Arrington's regular form of Division Order is fully executed and returned to Arrington. Arrington shall be held harmless against loss or liability due to failure to receive such notice. Regardless of the effective date of the transfer, all transfers of interest shall be effective hereunder as to Arrington as of 7:00 A.M. on the first day of the next succeeding calendar month following the month in which such written notice is received.

If any claim is made which adversely affects title to any interest credited hereunder, or such title is unmarketable in the opinion of a licensed New Mexico attorney, the parties credited with such interest severally agree to furnish abstracts or other evidence of title acceptable to Arrington, and to cure any defects which render the title of the Owners unmarketable, without expense to Arrington. In the event of failure to furnish such evidence of marketable title, Arrington is authorized to withhold payments until the claim is settled. In the event any action or suit is filed in any court affecting title to the oil and/or gas or proceeds thereof in which any of the Owners are parties, written notice of the filing of such action shall immediately be furnished to Arrington stating the court in which the same is filed and the title of such action, and Arrington shall be held harmless from any judgement rendered in such suit, and all reasonable costs and expenses incurred in defending the claim shall be paid by the Owners who is a party to the suit.

If through error, inadvertence, erroneous title information or otherwise, Arrington shall pay to the Owners any sums to which the Owners are not lawfully entitled, Arrington shall have the right to recover the total amount of all such payments, by withholding the same from future money in Arrington's possession to which the Owners are otherwise entitled to be paid, whether such withheld funds accrue from the land described herein or from other land in which the Owners have an interest.

All of the provisions herein contained shall apply to each of the Owners severally and not jointly. This division order shall become valid and binding on each of the Owners as soon as signed by such party regardless of whether or not all of the Owners named on the division of interest schedule annexed hereto have so signed.

Commencing on the Effective Date, as specified in the caption hereof, and until such authority is revoked by written notice as described herein, Arrington is hereby authorized to receive, market, and dispose of Owners' oil and/or gas or to designate another person or company to receive, market, and dispose of Owners' oil and/or gas, on the terms following:

OIL shall be measured and graded in accordance with standards generally accepted in the industry and agreed upon by Arrington and the purchaser of oil. GAS shall be measured in accordance with standards generally accepted in the industry and may be commingled with gas produced from other properties. OIL and/or GAS shall become the property of the purchaser or the pipeline company or carrier designated by Arrington upon actual delivery to it. Arrington is authorized to receive payment for Owners' share of oil and/or gas received by such purchaser; provided, however, Arrington may withhold such portion of the price paid that may be subject to refund under any provision of Arrington's contract with the purchaser or any regulation, rule or order of the Federal Energy Regulatory Commission or any successor agency having jurisdiction over such product.

Settlement for oil and/or gas received under this Marketing Agreement shall be based on the net proceeds realized at the well by Arrington from the sale thereof under this Marketing Agreement and all applicable contracts. All Owners shall bear their proportionate share of costs for transporting and treating the oil and/or gas for delivery; and their proportionate share of all severance, production, sales or other tax levied by or under applicable governmental authority against such oil and/or gas, and as an accommodation to the Owners, Arrington is authorized to withhold the payment thereof from the proceeds accruing hereunder and to pay such taxes in behalf of the Owners. All Working Interest Owners shall additionally bear Arrington's charges for marketing and handling the oil and/or gas. All Working Interest Owners will be allocated their share of the oil and/or gas revenues and all associated costs on the same basis as they are allocated to Arrington and other Arrington entities. The price received by Arrington for oil and/or gas sold under this Marketing

Returned 10.14.04

2920

Agreement shall be accepted by the Owners as the market price for oil and/or gas during the entire term of this Marketing Agreement.

The oil, gas and mineral lease or leases covering the above described land, together with any designations, declarations or agreements creating a unit or units including all or part of the above described land, under which the oil and/or gas covered hereby is produced, are hereby ratified and approved and such ratification and approval shall be valid and effective notwithstanding any subsequent termination of this Marketing Agreement. The Owners agree that no act or omission to act by Arrington (including but not limited to the retention of funds hereunder), in compliance with or pursuant to this Marketing Agreement or any law or rule or requirement of or condition imposed by any Federal or State Agency having or asserting jurisdiction, shall be deemed to be or to result in a breach, forfeiture or termination of any such lease, designation, declaration, agreement or contract. No covenants contained herein intend to change or amend controlling oil and gas leases nor the New Mexico Oil and Gas Proceeds Payment Act Section 70-10-1 through 70-10-6, NMSA, 1978 (1991 cum. supp.).

Each of the Owners agree to indemnify and hold Arrington and any other purchaser of the oil and/or gas and any carrier designated by Arrington or any other purchaser receiving the oil and/or gas and each of them harmless against all and every loss, damage, charge or expense of any kind whatsoever, which they or either of them may suffer or incur by or on account of receiving or purchasing or transporting the oil and/or gas or by reason of any and all claims of any character as to the oil and/or gas adverse to the Owners.

This Division Order and Marketing Agreement may be terminated by Arrington or by any one or more of the Owners (as to his, her or its interest) as to any future sales or deliveries of oil and/or gas from said lease provided that no such termination shall affect any rights given Arrington or any of the Owners under the terms hereof as to sales or deliveries of oil and/or gas theretofore made, or as to sums theretofore paid hereunder, and provide further, that no such termination by any of the Owners shall be effective as to Arrington until 7:00 A.M. the first day of the next succeeding calendar month following 30-days after written notice thereof has been received by Arrington at the above address. Consent is hereby given to Arrington and/or any pipeline company which Arrington may cause to connect with said well, to disconnect and remove such pipelines in case of termination by either Arrington or Owners of purchase under this Division Order and Marketing Agreement.

Under penalties of perjury, I certify (1) that the number shown below is my correct taxpayer identification number, and (2) that I am not subject to backup withholding.

Name: _____
Signature: _____
Taxpayer ID#: _____
Phone #: _____
Address: _____
City: _____
State & Zip: _____

ATTEST:

MARSHALL & WINSTON, INC.

By: Charles G. Rice
Charles G. Rice
Secretary-Treasurer

By: Clarence R. Chandler
Clarence R. Chandler
President

Tax I.D. #95-0976450
(432) 684-6373
P. O. Box 50880
Midland, TX 79710-0880

#0002788

MARSHALL & WINSTON INC.

DIVISION ORDER EXHIBIT "A"
Green Eyed Squealy Worm #1
Property #1250-001

OWNER #	OWNER NAME	DECIMAL	TYPE	ADDR1	ADDR2	CITY	ST	ZIP
0001828	DENNIS, DON C.	.00065100	RI	P. O. BOX 1738		LUBBOCK	TX	79408-1738
0001829	DENNIS, J. M. ESTATE	.00195310	RI	DON C. DENNIS, EXECUTOR	P.O. BOX 1738	LUBBOCK	TX	79408-1738
0002788	MARSHALL & WINSTON INC.	.04687500	RI	P.O. BOX 50880		MIDLAND	TX	79710-0880
0008282	JUNE DANGLADE SPEIGHT	.06250000	RI	P.O. DRAWER 1687		LOVINGTON	NM	88260
0011822	LORA B MCALPIN TRUST	.00195310	RI	C/O ROBERT MCALPIN	1817 WELCH AVE, APT A	COLLEGE STATION	TX	77840
0011823	FRANCES J FREEMAN REVOCABLE	.00341800	RI	LIVING TRUST	P O BOX 1627	LOVINGTON	NM	88260
0011824	SEWARD FAMILY TRUST	.00156250	RI	C/O BARBARA SEWARD	9604 MERION CIRCLE NE	ALBUQUERQUE	NM	87111
0016030	BOBBY V. BELL	.02343750	RI	& CHRISTINE JANE BELL	2525 RIDGEVIEW ROAD	CAMDEN	AR	71701
0022753	JO ANN DENITTO	.00065100	RI	2036 MUSTANG DRIVE		LEVELLAND	TX	79336
0022754	JESSIE A. DENNIS, SOLE HEIR OF	.00065100	RI	BARRON DENNIS	231 MIDDLEBURY	SAN ANTONIO	TX	78217
0025750	BILLY EASLEY TRUST	.00781250	RI	BANK OF AMERICA, TRUSTEE	P O BOX 830308	DALLAS	TX	75283
0034340	G. G. GORE & CAROL J GORE	.00390630	RI	2020 S COLUMBUS ROAD		DEMING	NM	88030
0035800	H-D MINERAL PROPERTIES	.03125000	RI	P O BOX 3061		MIDLAND	TX	79702
0044500	SANDRA LEE PONDER JOY	.00390620	RI	RT 2 BOX 1890		CRANFILLS GAP	TX	76637
0046125	GAY CRABB KARGER TRUST	.01796880	RI	BANK OF AMERICA, TRUSTEE	P O BOX 830308	DALLAS	TX	75283
0046130	LAWRENCE E. KARGER TRUST	.00546880	RI	BANK OF AMERICA, TRUSTEE	P.O. BOX 830308	DALLAS	TX	75283
0073365	CHARLSIE E SAVAGE	.00390630	RI	& SIDNEY SAVAGE	P O BOX 7	DEMING	NM	88031
0073735	BARBARA WRIGHT SEWARD	.00234370	RI	9604 MERION CIRCLE, NE		ALBUQUERQUE	NM	87111
0087370	BERT RONAL WRIGHT	.00390630	RI	2830 ROLLING BROAD DRIVE		ORLANDO	FL	32837
0087825	WINSTON PARTNERS, LTD.	.01562500	RI	Sargent Management Company	901 MARQUETTE AVE STE 2630	MINNEAPOLIS	MN	55402-3230
0088626	G T MCALPIN ESTATE	.00156250	RI	ANGELA MCALPIN, PER REP	665 LINCOLN COURT	GRAND JUNCTION	CO	81503
0001024	ALPINE PETROLEUM, INC.	.00132810	ORRI	P.O. BOX 3367		MIDLAND	TX	79702
0001892	DOUGLAS, DALE	.00132810	ORRI	P.O. BOX 10187		MIDLAND	TX	79702
0002886	JOHN R. McRAE	.00132810	ORRI	3409 WOODHAVEN		MIDLAND	TX	79707
0009000	THE MONUMENT ABO COMPANY	.00421880	ORRI	P.O. BOX 2071		MIDLAND	TX	79702-2071
0001544	CHESAPEAKE EXPLORATION L.P.	.24241980	WI	P.O. BOX 960161		OKLAHOMA CITY	OK	73196-0161
0002440	STEVE L HOLIFIELD SR.	.06060500	WI	P.O. BOX 60910		MIDLAND	TX	79711
0002788	MARSHALL & WINSTON INC.	.20223050	WI	P.O. BOX 50880		MIDLAND	TX	79710-0880
0003792	YATES PETROLEUM CORPORATION	.00782130	WI	P.O. Box 1395		Artesia	NM	88211-1395
0003815	MYCO INDUSTRIES, INC	.00111730	WI	C/O YATES PETROLEUM CORP	PO BOX 840	ARTESIA	NM	88211-0840
0004205	YATES DRILLING COMPANY	.00111730	WI	C/O YATES PETROLEUM CORP	ATTN: KATHY H. PORTER	ARTESIA	NM	88210
0004260	ABO PETROLEUM CORPORATION	.00111730	WI	C/O YATES PETROLEUM CORP	ATTN: KATHY H. PORTER	ARTESIA	NM	88210
0004784	DAVID PETROLEUM CORP.	.00540720	WI	ATTN: EDWARD N. DAVID	116 WEST 1ST STREET	ROSWELL	NM	88203
0004785	EDWARD N. DAVID	.00011960	WI	C/O DAVID PETROLEUM CORP	116 W 1ST STREET	ROSWELL	NM	88203
0006790	KEITH E. AND KAY ANN MCKAMEY	.00005990	WI	1702 WASHINGTON ST.		ARTESIA	NM	88210

DIVISION ORDER EXHIBIT "A"
Green Eyed Squealy Worm #1
Property #1250-001

OWNER #	OWNER NAME	DECIMAL	TYPE	ADDR1	ADDR2	CITY	ST	ZIP
0006825	MCMILLAN PRODUCTION CO., INC.	.00202720	WI	C/O DAVID PETROLEUM CORP	116 W. 1ST STREET	ROSWELL	NM	88203
0006826	MCMILLAN VENTURES, LLC	.00255050	WI	C/O DAVID PETROLEUM CORP	116 W. 1ST STREET	ROSWELL	NM	88203
0006827	MICHAEL A & TERESA L MCMILLAN	.00023930	WI	C/O DAVID PETROLEUM CORP	116 W. 1ST STREET	ROSWELL	NM	88203
0006831	WILLIAM B. OWEN	.00005990	WI	C/O DAVID PETROLEUM CORP	116 W. 1ST STREET	ROSWELL	NM	88203
0007515	PERMIAN EXPLORATION CORP	.00228900	WI	C/O DAVID PETROLEUM CORP	116 W. 1ST STREET	ROSWELL	NM	88203
0011781	QUANAH EXPLORATION LTD PTNRSHIP	.06250000	WI	P O BOX 494		MIDLAND	TX	79702
9999802	DAVID H. ARRINGTON	.15880720	WI	P.O. BOX 2071		MIDLAND	TX	79701
		1.00000000						

OIL AND GAS LEASE
(PAID-UP)

THIS AGREEMENT is made the 3rd day of May, 2010, between WINSTON PARTNERS, LTD., whose address is % MERISTEM, 601 Carlson Parkway, Suite 800, Minnetonka, Minnesota 55305 (hereinafter referred to as "Lessor"), and MARSHALL & WINSTON, INC., whose address is P. O. Box 50880, Midland, Texas 79710-0880 (hereinafter referred to as "Lessee"), as follows:

WITNESSETH

1. Lessor, in consideration of Ten Dollars and No/100 (\$10.00) and other valuable consideration, of the royalties herein provided, and of Lessee's agreements herein, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling for and producing oil, gas and other hydrocarbons, laying pipelines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, the following described land in Lea County, New Mexico:

Township 15 South, Range 34 East
Section 26: N/2 SE/4

For determining the amount of any payment hereinafter provided, said land is estimated to comprise 80.00 acres, whether there be more or less. Each tract, if more than one, shall be presumed to cover the number of acres shown for that tract.

2. Subject to the other provisions hereof, this lease shall be for a term of six (6) months from this date (hereinafter referred to as "primary term") and as long thereafter as oil or gas is produced in paying quantities from said land or from land pooled therewith.

3. The royalties to be paid by Lessee to Lessor are:

a. On oil one-fourth (1/4th) of that produced and saved from said land, the same to be delivered monthly free of cost to Lessor at the wells, or to the credit of Lessor into the pipeline to which the wells may be connected.

b. On gas, casinghead gas and all their derivatives, elements, component parts and marketable attributes, one-fourth (1/4th) of the market value at the place where the gas or the element involved is sold or utilized, payable monthly. Provided, however, that if the gas or gas and condensate is discovered on said land, Lessee shall promptly notify Lessor of such discovery, and Lessor shall have the option to take in kind and separately market its said royalty share of all gas and condensate produced, in lieu of receiving its stated fraction of market value of said products. For purposes hereof, proceeds from any sale between Lessee and non-affiliated company or person negotiated in good faith at the time the gas contract is entered into and at arm's length shall be deemed to be market value.

c. All oil and gas proceeds payable to Lessor under this lease shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting or any similar charge in marketing the oil and gas produced hereunder.

d. While there is a gas well on this lease (classified as such by appropriate governmental authority) capable of producing in paying quantities but gas is not being sold or used, and this lease is not then otherwise being held in force, Lessee shall pay or tender as royalty to the owner of such royalty direct to the address below, on or before sixty (60) days after the date on which such well is shut in, and annually thereafter, the sum of \$80.00 per well for each shut-in gas well, and if such payment is made, it will be considered that gas is being produced within the meaning of Paragraph 2 hereof, provided, that this lease may not be extended by payment of such annual shut-in gas well payments in excess of two (2) annual periods.

4. It is specifically provided that this is a paid-up lease during the term set out above as "primary term" and there shall be no obligation or liability on the Lessee to make any shut-in royalty payment or other payment during said primary term, and without any such payment this lease shall remain in force and effect during said primary term.

5. Lessee may, at any time, execute and deliver to Lessor and place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. If prior to discovery of oil or gas on said land Lessee should drill a dry hole or dry holes thereon, or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days thereafter. If, at the expiration of the primary term, oil or gas is not being produced on said land but Lessee is then engaged in drilling or reworking any well, this lease shall remain in force so long as such drilling or reworking is prosecuted continuously and with due diligence; and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land in paying quantities.

7. Lessee may at any time during the term of or within six (6) months after the expiration of this lease remove all property and fixtures, including casing, placed by Lessee on said land.

8. If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. No change in the ownership of the land or assignment of rentals or royalties shall be binding on Lessee until after Lessee has been furnished with a written transfer or assignment or a copy thereof.

9. After the discovery of oil, gas or other hydrocarbons in paying quantities on said premises or on directly offsetting lands, Lessee shall reasonably develop the acreage retained hereunder.

10. All expressed and implied covenants of this lease shall be subject to all otherwise applicable federal and state laws, executive orders and rules or regulations, and this lease shall not be terminated in whole or in part nor Lessee held liable for damages for failure to comply therewith if compliance is prevented by or if such failure is the result of any such law, order, rule or regulation.

11. This lease is granted without warranty of title, either express or implied, and covers only Lessor's present interest in said land. If Lessor owns an interest in said land less than the entire fee simple estate, the royalties and rentals to be paid Lessor shall be reduced proportionately.

12. Lessee is hereby granted the right to consolidate or unitize this lease, the land covered by it or any part or parts thereof as to all strata or any stratum with any other contiguous land, lease, leases or part thereof as to all strata or any stratum for the production of oil or gas. Consolidation in one or more instances shall not exhaust the right of Lessee to consolidate this lease or portion of the oil and gas estate into other or different units. Units consolidated for oil hereunder shall not exceed forty (40) acres plus a tolerance of ten percent (10%) thereof, and units consolidated for gas hereunder shall not exceed six hundred forty (640) acres plus a tolerance of ten percent (10%) thereof; provided that if any federal or state law, executive order, rule or regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable in whole or in part on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable. Lessee shall file written unit designation in the county in which said land is located. Drilling or reworking operations and production on any part of the consolidated acreage shall be treated for all purposes hereof as if such drilling or reworking operations were upon or such production were from the land described in this lease, whether the well or wells be located on the land covered by this lease or not. The entire acreage consolidated into a unit shall be treated for all purposes, except the payment of royalties on production from the consolidated unit, as if it were included in this lease. In lieu of the royalties herein provided, Lessor shall receive on production from a unit so consolidated only such portion of the royalty stipulated herein as the amount of its acreage placed in the unit, or his or its royalty interest therein, on an acreage basis, bears to the total acreage so consolidated in the particular unit involved. Provided, however, that if any such consolidation less than all of the land covered hereby is included in a unit created pursuant to this paragraph, and if this lease as to the leased land lying outside the boundary of such unit is not otherwise maintained in force by some other provision hereof, then this lease will terminate as to all land not included in such consolidated unit, effective at the end of the primary term hereof.

13. Lessee agrees to furnish Lessor, at the request of Lessor, free of charge, one legible copy of any and all well or lease data, information or reports concerning any well, proposed well or any transaction affecting the leased premises when such data, information or reports become available, including, but not limited to, acoustical, electrical, gamma ray, neutron, spectral or any other type log, drilling reports, completion reports, potential tests, drill stem tests, plugging and abandoning reports, assignments, drilling opinions, division order opinions or any other title opinions that affect title to said lands. All such data, information and reports shall, when requested and available, be mailed direct to Lessor at the address set out above.

14. At the end of the primary term, if Lessee is engaged in drilling operations or if Lessee has completed a well on the leased premises either as a dry hole or a commercial producer within one hundred eighty (180) days prior to the expiration of the primary term, this lease shall remain in effect so long as operations are commenced and prosecuted with a cessation of no more than one hundred eighty (180) days between the completion of one well on said land as a well capable of producing oil and/or gas in paying quantities or a dry hole and commencement of

drilling of the next well on said land. Completion shall be considered the date the well reaches total depth. Commencement shall be considered the date a rig capable of reaching total depth is placed on location.

As used herein, the term "proration unit" means a tract allocated by the appropriate governmental regulatory body to a well, which tract is of such size as to entitle the well to a full allowable. Anything herein to the contrary notwithstanding, this lease will terminate at the end of the primary term or at the end of any continuous development program as herein provided as to the following:

(a) Each proration unit on which a dry hole has been drilled, and each undrilled proration unit; and

(b) All horizons below 100 feet below the deepest depth drilled on each proration unit.

15. At the end of the primary term or any extensions allowed hereunder and at the request of Lessor, Lessee agrees to prepare and deliver a release of all lands and horizons not earned under this lease.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

WINSTON PARTNERS, LTD.

By: Steven M. Wyman
Steven M. Wyman, Partner

By: Frederick Winston
Frederick Winston, Partner

STATE OF COLORADO

COUNTY OF DENVER

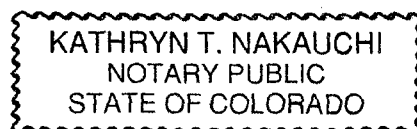
This instrument was acknowledged before me on this 21 day of May, 2010, by STEVEN M. WYMAN, Partner of WINSTON PARTNERS, LTD., a partnership, on behalf of said partnership.

Kathryn T. Nakauchi
Notary Public, State of Colorado

STATE OF MINNESOTA

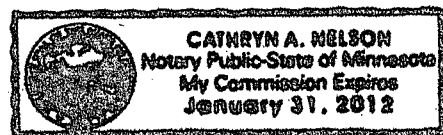
COUNTY OF HENNEPIN

This instrument was acknowledged before me on this 12 day of May, 2010, by FREDERICK WINSTON, Partner of WINSTON PARTNERS, LTD., a partnership, on behalf of said partnership.



Cathy Nelson
Notary Public, State of Minnesota

STATE OF NEW MEXICO
COUNTY OF LEA
FILED



JUN 04 2010
at 10:54 o'clock AM
and recorded in Book 1682
Page 219
Pat Chappelle, Lea County Clerk
By Spauld Deputy

