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Ex #1
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D.H. Taylor

ESROW INSTRUCTIONS.

To the First National Bank of Farmington
Farmington, New Mexico

Gentlemen:

We hand you, herewith, Oil and Gas Leases signed, executed, and acknowledged by the several undersigned Lessors and by Lloyd D. Locke and Lloyd B. Taylor, dba Locke-Taylor Drilling Company, Lessees, which leases are to be held in Escrow by you and handled as hereinafter instructed.

YOU ARE INSTRUCTED AS FOLLOWS:

I.

1. That the undersigned Lloyd D. Locke and Lloyd B. Taylor, copartners, dba Locke-Taylor Drilling Company, hereby agree to commence the actual drilling of a well on some part of the lands covered by one or more of the hereinabove mentioned oil and gas leases which are handed you herewith, on or before sixty (60) days from and after the date of the deposit of said leases herewith. Said well to be commenced with drilling rig, tools, machinery, equipment and casing sufficient and adequate in every respect to drill into and to test the Pictured Cliff formation for the production of oil or gas. The said Lessees shall diligently and continuously conduct drilling operations on said well until the same shall have been drilled into the Pictured Cliff formation, or a formation which produces oil or gas in commercial quantities at a lesser depth (it being estimated by the parties hereto that said formation carries gas only and does not produce oil). In the event the said well is commenced within the aforesaid sixty-day period, and is drilled into the Pictured Cliff formation, or a formation which produces oil or gas in commercial quantities, and said formation tested for the production of gas, and such well does produce oil or gas in commercial quantities, in such formation, then and in such event you are to deliver the lease or leases covering the quarter section (160 acres more or less), in which said well is drilled, to the said Lessees.

2. In the event said first well does not produce oil or gas in commercial quantities in the Pictured Cliff formation, or a formation at a lesser depth, then and in such event you shall continue to hold said lease in escrow to be delivered as hereinafter more specifically provided.

3. In the event the said Lessees neglect, fail, or refuse to commence said first well within the aforesaid sixty-day period, or neglect, fail, or refuse to drill said well to the Pictured Cliff formation, or a formation which produces oil or gas in commercial quantities at a lesser depth, and test the same for production, as hereinabove provided, then and in such event you shall re-deliver all of the leases of the several respective Lessors, handed you herewith, whose names are signed hereto below, to each respective Lessor who executed any particular lease, or to the agent or successor in interest of each respective Lessor, who is in writing designated by such Lessor.

II.

1. That on or before thirty (30) days from and after said first well has been drilled, tested, and placed in condition ready for delivery of production to the pipe line, if commercial production be obtained, or within thirty (30) days after it is determined that such first well is a dry hole, said Lessees shall commence the drilling of a second well on another location on land covered by one of the said leases, and shall continuously and diligently drill the same until such well shall have been drilled into the Pictured Cliff formation, or a formation which produces oil or gas at a lesser depth, and such formation tested for the production of oil and gas. If said second well produces oil or gas in commercial quantities, the leases to the lands embraced in the quarter section (160 acres more or less) on which said well is drilled shall be delivered to said Lessees when said second well is placed in condition to connect to the pipe line for the sale of gas.

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2. In the event said second well does not produce oil or gas in commercial quantities, in the Pictured Cliff formation, or commercial production in a formation of lesser depth, then and in such event you shall continue to hold said lease in Escrow to be delivered as hereinafter more specifically provided.

3. In the event the said Lessees neglect, fail, or refuse to commence said second well within the aforesaid thirty (30) day period, or neglect, fail, or refuse to drill said well to the Pictured Cliff formation and test the same for production, as hereinabove provided, then and in such event you shall re-deliver all of the leases of the several respective Lessors, handed you herewith, whose names are signed hereto below, to each respective Lessor who executed any particular lease, or to the agent or successor in interest of each respective Lessor, who is in writing designated by such Lessor.

III.

1. Said Lessors agree to drill a total of fifteen (15) wells on lands embraced in the above mentioned leases, and in the several sections hereinafter described, in the numbers herein named for each particular section, subject to the exceptions hereinafter specifically contained relative to surrender or abandonment of the said leases, to-wit:

Township 29 North, Range 13 West, N. M. P. M.

Section 22 ~ four (4) wells to be drilled;
Section 21 ~ four (4) wells to be drilled;
Section 14 ~ four (4) wells to be drilled;
Section 15 ~ two (2) wells to be drilled;
Section 23 ~ one (1) well to be drilled.

2. Said Lessees shall have the right to abandon the aforesaid drilling program in the event none of the first three wells drilled by the Lessees are producers of oil or gas in commercial quantities and of commercial quality. Such abandonment to be in writing, signed by said Lessees or either of them.

3. In the event said Lessees or either of them neglect, fail, or refuse to drill the said 15 wells in consecutive order within the time hereinafter specified, then such neglect, failure, or refusal shall be deemed ipso facto to be an abandonment of the said drilling program, and upon demand or request of the said Lessors, or either of them, in writing, made and signed by such Lessor or Lessors, and copy thereof delivered to said Lessees, or either of them, and original or copy thereof delivered to the said bank forthwith, as Escrow Agent of the parties hereto, the said bank forthwith shall deliver to the respective Lessors the lease or leases of said Lessors deposited in escrow herewith.

4. It is specifically understood and agreed by and between said Lessors and said Lessees, and the said bank hereby is so instructed, that in event abandonment, either on the part of said Lessees or abandonment by declaration of Lessors, or either of them, as provided in paragraphs 2 or 3 of this section, the said bank shall re-deliver to the respective Lessors the lease executed by respective Lessors; provided, however, that in the event a well producing oil or gas in commercial quantities shall have been drilled by said Lessees, the lease or leases under which such commercial well or wells shall have been drilled shall be delivered to said Lessees, or either of them. It is further understood and agreed by and between parties hereto, that where two or more tracts of land embraced in two or more of said respective leases shall have been unitized or pooled into a 160 acre drilling block or unit, then all of the leases embraced in such drilling unit or block on which a well is obtained shall be deemed to have a producing well on all the lands embraced therein (whether the land on which such well is drilled by the Lessees is covered by one of the leases deposited in Escrow herein, or under separate lease from the owner of said land to the Lessees herein), and the lease or leases covering lands embraced in such unit or drilling block shall be delivered to said Lessees, or either of them.

5. Said Lessees agree that they will successively drill the 15 wells hereinabove mentioned to the Pictured Cliff formation, or other formation which produces oil or gas in commercial quantities at a lesser depth, and test the same for production in said formation; that each of said wells shall be successively drilled, the drilling on each of said wells shall be commenced on or before thirty (30) days from and after

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the last preceding well shall have been drilled, tested, and placed in condition to deliver gas in the pipe line for sale. Such successive wells to be commenced and drilled with good and adequate drilling rig or equipment, with adequate tools and casing, and operations thereon diligently and continuously prosecuted until such well shall have been drilled into the Pictured Cliff formation, or a formation which produces oil or gas in commercial quantities, at a lesser depth, and said formation tested for production of oil or gas.

IV.

It is further agreed by the said Lessors and said Lessees that in the event any of the said 15 wells provided to be drilled to the Pictured Cliff formation are non-commercial, the leases to the lands on which such non-commercial wells shall have been drilled shall be held in escrow by said bank for the period of twelve (12) months, from and after the completion of the last of said 15 wells. Within the period of twelve (12) months said Lessees shall have the right and option to commence one or more wells to be drilled to the Mesa Verde formation. Such well or wells to the Mesa Verde formation shall be continuously and diligently drilled by said Lessees until said Mesa Verde formation shall have been drilled into and fully tested for the production of either oil or gas. If said Lessees neglect, fail, or refuse to commence the drilling of such well to the Mesa Verde formation within said period of 12 months, then and in such event the said bank shall re-deliver to the said respective Lessors the leases covering the lands of such respective Lessors. In the event commercial production of either oil or gas is obtained in a well drilled to the Mesa Verde formation then all of the leases then remaining in the hands of said bank shall be delivered to said Lessees, or either of them.

V.

It is understood and agreed by and between said Lessors and said Lessees, that the wells hereinabove required to be drilled shall be drilled in such drilling units, or pooling of acreage as may be required to comply with the regulations promulgated by the oil conservation commission of the State of New Mexico, and that where it becomes necessary to group the lands in two or more leases into one drilling unit in order to comply with said regulations, then all of the leases covering the lands embraced in such drilling unit shall be deemed to be validated and such leases are to be delivered to said Lessees, or either of them, to the same extent as if the lands embraced in the several leases covering lands in each respective unit shall have been validated by drilling on the lands covered by each of such respective leases.

VI.

It is mutually understood and agreed by and between said Lessors and said Lessees, that time is of the essence of these instructions and of the agreement between said Lessors and said Lessees, and of each and every part and paragraph thereof, and that this agreement shall extend to and be binding upon the heirs, executors, administrators and assigns of all of the parties hereto.

VII.

It is further understood and agreed by and between said Lessors and said Lessees, and said escrow bank hereby is so instructed, that in the event there is any disagreement or dispute between said Lessors, or either of them, and said Lessees, or either of them, as to whether any term or condition of these instructions and the agreement embraced herein has been complied with by said Lessees relative to the date of commencement of drilling operations, the prosecution thereof, the tools and equipment used by said Lessees, the said escrow bank or either or any of said Lessors or said Lessees may call upon the Oil and Gas Inspector appointed by the Oil Conservation Commission of the State of New Mexico, for the territory or area embracing said San Juan County, to deliver to said escrow bank in writing, signed by such Oil and Gas Inspector, the certificate of such inspector as to the compliance or non-compliance of said Lessees with the particular question about which such disagreement or dispute arises, and such certificate from said Oil and Gas inspector shall be final and conclusive as to such matters as he shall certify to said escrow bank, and the same shall be binding upon all of the Lessors and Lessees, who are parties hereto.

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VIII.

It is specifically understood by and between said Lessors and said Lessees, and each and all of them, and said Escrow bank hereby is so instructed, that in the event forfeiture is declared by said Lessors, or either or any of them, for the neglect or failure of said Lessees to comply with the requirements herein, the Lessor or Lessors declaring such forfeiture shall serve a notice in writing, signed by the person or persons making such declaration upon the said Escrow bank, together with a copy of such notice upon said Lessees, or either of them, by registered mail, postage prepaid, and addressed to said Lessee or Lessees at Farmington, New Mexico; and thereupon said Lessee or Lessees shall have the right to remove the cause for which such declaration of forfeiture is made within said period of thirty (30) days, and if such cause is not removed within said period of thirty (30) days, the said Escrow bank shall re-deliver the leases delivered herewith to the Lessors in accordance with the provisions hereof relating to the neglect or failure upon which such declaration of forfeiture is made.

IX.

These escrow instructions may be delivered to the bank on a particular date, and any lease or leases delivered to the said bank by the Lessors of the lands embraced in the hereinabove mentioned sections of land shall be governed by these instructions regardless of the date of delivery of the lease to the bank. The signature of the Lessors delivering or causing to be delivered any lease to said escrow bank, and the signing of these instructions to said bank by such Lessor or Lessors, automatically shall make such Lessors parties to the agreement regardless of date of delivery of the leases.

X.

It is further understood and agreed by and between said Lessors and each and all of them, and said Lessees, that all obligations herein required of said Lessees shall be suspended while, but only so long as Lessees are prevented from complying with the requirements hereof, in whole or in part, by strikes, lockouts, acts of God, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in the open market by reason of state or federal law or regulations, any state or federal law, regulations or other matter (expressly excluding financial matters) beyond the reasonable control of said Lessee, whether similar to the matters herein specifically enumerated, or not; provided, however, that performance shall be resumed as soon as is reasonably possible after such cause or causes of interruption or interruptions shall have been removed, and provided further that said Lessees shall not be required against their will to adjust any labor dispute or to question the validity of or to refrain from or judicially test the validity of any state or federal law or regulation.

XI.

It is understood and agreed by and between the parties, hereto, and said Escrow bank is so instructed, that in the event less than the owners of three-fourths (3/4ths) of all of the lands embraced in the above mentioned five sections of land, neglect, fail, or refuse to execute leases to said Lessees covering said proportionate amount of land in each section, then said Lessees shall have the right and option to refuse to commence the drilling obligations hereunder which refusal shall be delivered to said Escrow bank in writing, signed by said Lessees, or either of them, and thereupon said bank forthwith may re-deliver all of the leases deposited herein to the respective lessors.

IN WITNESS WHEREOF, the undersigned parties hereto have hereunto set their hands on the dates written opposite their respective names.