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ASSIGNMENT, BILL OF SALE AND CONVEYANCE

For consideration paid, the receipt and sufficiency of which are hereby acknowledged, CHANCE TOOL, LTD., a limited partnership, referred to herein as "Assignor", does hereby grant, bargain, sell, assign, transfer and convey to ARCH PETROLEUM INC., a Delaware corporation, whose address is Post Office Box 2504, Houston, Texas 77252-2504 (hereinafter referred to as "Assignee"), all of the following interests (hereinafter referred to collectively as the "Properties"):

- (a) The oil and gas leasehold interests set forth in Exhibit "A" attached hereto and made a part hereof, insofar as said interests include and pertain to the lands described in said Exhibit "A";
- (b) Without limitation of the foregoing, all of Assignor's right, title and interest in and to the lands described in Exhibit "A" hereto, whether oil and gas leasehold, overriding royalty interest, fee mineral interest, or any other interest in oil and gas or minerals produced in association therewith or rights thereto, of whatever nature and whether or not correctly or adequately described in Exhibit "A" and regardless of depth (the interests described in subparagraph (a) immediately above and this subparagraph (b) being hereinafter referred to as the "Oil and Gas Interests");
- (c) All of Assignor's right, title and interest in and to or derived from any presently existing and valid oil and gas or oil, gas or mineral unitization, pooling and communitization agreements, declarations and orders and the units created thereby (including, without limitation, all units formed under orders, regulations, rules or official acts of any federal, state or other governmental agency having jurisdiction), which relate to any of the Oil and Gas Interests or to the production of oil, gas or other minerals produced from or attributable to the Oil and Gas Interests;
- (d) All of Assignor's rights, titles and interests in and to or derived under or incident to the Oil and Gas Interests, or lands pooled, communitized or unitized therewith, including all presently existing oil and gas sales, purchase, exchange and processing contracts, casinghead gas contracts, operating agreements, balancing agreements, joint venture agreements, seismic exploration agreements, area of mutual interest agreements, farmout and farmin agreements, dry hole and bottom hole contribution agreements, easements, permits, licenses, servitudes, rights-of-way, surface use agreements, water rights, and all other contracts, agreements and instruments (including, without limitation, the risk charge or penalty provisions thereof and future interests, reversionary rights and deferred interests) and orders in any way relating to any of the Oil and Gas Interests;
- (e) All of Assignor's right, title and interest in and to all tangible personal property, improvements, lease and well equipment and other properties situated on and used or useful or held for future use in connection with the exploration, development, operation or maintenance of the Oil and Gas Interests or any unit, units or pooled or communitized area in which part or parts of the Oil and Gas Interests may be included, or in connection with the production, treating, storing, transportation or marketing of oil, gas and other minerals produced from or allocated to the Oil and Gas Interests or such unit, units or pooled or communitized area or areas, including but not limited to all wells, platforms, casing, tubing, rods, pumps, tanks, tank batteries, boilers, separators, LACT units, heater-treaters, buildings, fixtures, machinery, injection facilities, salt water disposal facilities, compression facilities, dehydration equipment, other equipment, processing plants, fractionation plants, gas and gasoline plants, gathering systems, pipelines, power lines, telephone and telegraph lines, roads and other facilities; and
- (f) All of Assignor's right, title and interest in and to all files, records and data in Assignor's possession relating to the Properties, including, without limitation, all title records, production sales agreement files, division order and lease files, production records, maps and, to the extent legally permissible, geological, geophysical and seismic records, data and information.

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER

This assignment is made subject to the terms and provisions of the oil and gas leases of record and in effect whether described or not described in attached Exhibit "A", and to all agreements and instruments entered into by prior owners and affecting Assignor's interests in the Properties as shown of record or set forth herein or in Exhibit "A" hereto. Subject to such agreements and instruments, Assignor warrants and agrees to defend title to the Properties to Assignee and Assignee's successors and assigns against the lawful claims and demands of all persons claiming by, through or under Assignor, but not otherwise. This assignment is made with full substitution and

subrogation of Assignee, and all persons claiming by, through and under Assignee, to the extent assignable, in and to all covenants and warranties by Assignor's predecessors in title and with full subrogation of all rights accruing under the statutes of limitation or prescription under the laws of the state in which the Properties are located and all rights of action on any warranty of all former owners of the Properties. This assignment shall bind and inure to the benefit of Assignor and Assignee and their respective successors and assigns.

The parties agree to take all such further actions and execute, acknowledge and deliver all such further documents that are necessary or useful in carrying out the purposes of this assignment. So long as not prohibited by applicable law, Assignor agrees to execute, acknowledge and deliver to Assignee all such additional instruments, notices, division orders, transfer orders (or letters in lieu thereof) and all other documents and to do all such other and further acts and things as may be necessary more fully and effectively to grant, convey and assign to Assignee the Properties conveyed hereby or intended to be conveyed.

Notwithstanding the actual date of execution, this assignment shall be effective as of February 1, 2004, at 7:00 A.M. (the "Effective Time") where the Oil and Gas Interests are located. Prior to the Effective Time, all income attributable to the Properties (including the proceeds from the sale of all oil in the tanks and all oil and gas in the pipelines above the wellhead as of the Effective Time) shall belong to Assignor, and all costs attributable thereto (including, but not limited to, all royalties, overriding royalties and other burdens payable out of oil and gas produced prior to the Effective Time, all taxes measured by such production and a pro rata share of all ad valorem taxes) shall be borne and paid by Assignor. After the Effective Time, all income attributable to the Properties shall belong to Assignee, and all costs attributable thereto shall be borne and paid by Assignee. Within 90 days after the Effective Time, Assignor shall provide a post-closing statement to Assignee to account for any oil and gas proceeds, net of all royalty, overriding royalty, production payments and taxes (including production, severance and ad valorem taxes) received by one party that are attributable to the Property during the period of the other's ownership, and to account for operating and other costs and expenses paid by one party for which the other party is responsible hereunder. Any sums, which may be due from one party to the other, shall be paid promptly after the preparation and delivery of the post-closing statement.

Executed on the dates of Assignor's and Assignee's respective acknowledgments appended hereto, but effective as of the Effective Time.

ASSIGNOR:
CHANCE TOOL, LTD., a limited partnership, by
Chance Tool of Kermit L.L.C., its general partner

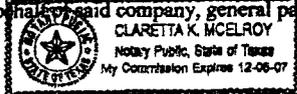
ASSIGNEE:
ARCH PETROLEUM INC.

By: [Signature]
Name: Joe C. Chance
Title: President of Chance Tool of Kermit
L.L.C., General Partner

By: [Signature]
Name: Jerry A. Cooper
Title: Executive Vice President

STATE OF Texas §
COUNTY OF Winkler §

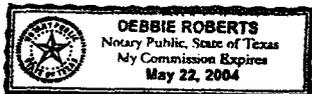
This instrument was acknowledged before me on this the 28 day of January, 2004, by Joe C. Chance, president of Chance Tool of Kermit L.L.C., a Texas limited liability company, on behalf of said company, general partner on behalf of Chance Tool, Ltd., a Limited Partnership.



[Signature]
Notary Public, State of Texas.

STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on this the 29th day of January, 2004, by Jerry A. Cooper, Executive Vice President of ARCH PETROLEUM INC., a Delaware corporation, on behalf of said corporation.



[Signature]
Notary Public, State of Texas.

EXHIBIT "A"

to Assignment, Bill of Sale and conveyance
from CHANCE TOOL, LTD., Assignor,
to ARCH PETROLEUM INC., Assignee

KELLY-STATE LEASE:

Date: January 10, 1951
Lessor: State of New Mexico
Lessee: John M. Kelley
State Lease Nr: E-4958-1
Recording: Not Recorded
Lands: SW¼ Section 16, T-23-S, R-37-E, N.M.P.M., Lea County, New Mexico, among other lands not included in this Agreement.
Mineral Interest: 100%
Royalty: 12.5%
ORRI: 62.5% on Oil and 25% on Gas
Conveying: 100% Working Interest - 81.25% Net Revenue Interest on Oil and a 62.5% Net Revenue Interest on Gas.

LAMUNYON FEDERAL LEASE:

Date: January 1, 1940
Lessor: United States of America
Lessee: Gulf Oil Corporation
USA Lease Nr: LC-030187
Recording: Not Recorded
Lands: S½NW¼; NE¼NW¼; SW¼ SW¼ Section 21, T-23-S, R-37-E, N.M.P.M., Lea County, New Mexico, among other lands not included in this Agreement.
Mineral Interest: 100%
Royalty: 5% on Oil and 12.5% on Gas
ORRI: Five Percent (5.0%)
Conveying: 100% Working Interest - 90% Net Revenue Interest on Oil and a 82.5% Net Revenue Interest on Gas.

MAY "A" LEASE:

In all oil and gas leases, as shown of record, collectively covering the following described lands in Lea County, New Mexico, being the W½NE¼ Section 21, T-23-S, R-37-E, N.M.P.M., from the Surface of the ground down to and including the subsurface depth of 3,700 feet, conveying a 72.260958% Working Interest and a 58.712028% Net Revenue Interest.

DEFINITIONS:

Working Interest means an oil and gas leasehold interest, or interest in the oil, gas and/or other minerals, in the tracts of land described above in connection therewith, obligating the owner thereof to bear the specified fraction, percentage or decimal share of the cost of development and operation of such tracts for the production of oil and gas.

Net Revenue Interest means the specified fractional, percentage or decimal interest in all of the oil and gas that may be produced and saved from the tracts of land described above in connection therewith, after deduction of applicable royalty, overriding royalty, production payment and other burdens owned by parties other than Assignor.

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STATE OF NEW MEXICO
COUNTY OF LEA
FILED

FEB 06 2004
at 11:32 a'clock A M
and recorded in Book
Page
Melinda M. [unclear] Lea County Clerk
By [unclear]

