

**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS – YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER’S LICENSE NUMBER.**

**PURCHASE AND SALE AGREEMENT  
LYNN and TERRY COUNTIES, TEXAS**

This **Purchase and Sale Agreement** is dated this day of, 2010, and is between

(hereinafter referred to as **Owners**)

(hereinafter collectively referred to as **Buyer**).

In consideration of the mutual promises contained herein, the mutual benefits to be derived by each party hereunder and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, **Buyer** and those **Owners** who execute this **Agreement** (such **Owners** being sometimes hereinafter collectively called the **Sellers** and individually called **Seller**) agree as follows:

1. **Agreement to Sell and Purchase.** Subject to the terms and provisions of this Purchase and Sale Agreement (the **Agreement**) the **Sellers** agree to sell and assign and **Buyer** agrees to purchase all of **Sellers’** rights, titles, and interests in and to:
  - a. The oil, gas and/or mineral leases described in Exhibit A hereto, and any ratifications and/or amendments to such leases, whether or not such ratifications or amendments are described in Exhibit A insofar, and only insofar, as they cover the lands described on Exhibit A (the **Leases**);
  - b. The oil and gas wells (producing, injecting, shut-in, and/or temporarily abandoned) located on the **Leases** identified in Exhibit A hereto and all property and equipment located thereon or used in connection therewith, including, but not limited to pumps, platforms, well equipment (surface and subsurface), saltwater disposal wells, injection wells, plugged wells, abandoned wells, water wells, lines and facilities, sulfur recovery facilities, compressors, compressor stations, dehydration facilities, treating facilities, pipelines, gathering systems, gathering lines, flowlines and transportation lines, valves, meters, separators, tanks, tank batteries, existing and reclaimed pits and other fixtures associated or used in conjunction with present production, gathering, storing, measuring, treating, operating, maintaining, marketing, or transportation of production from the **Leases** or lands pooled therewith (the **Equipment**);
  - c. To the extent transferable, all contracts and contractual rights insofar as they relate to the **Leases** and **Equipment** including, but not limited to, unit agreements and orders, servitudes, easements, rights-of-way, permits, surface leases and rights, subleases and assignments, operating agreements, farmout and farmin agreements, licenses, orders and similar rights leased or owned by **Sellers** and oil and gas sales, purchase, exchange, transportation, gathering and processing contracts and agreements (the **Contracts**).

The **Leases**, **Equipment**, and **Contracts** are sometimes hereafter collectively referred to as the **Assets**.

This sale and purchase shall be effective as of 7:00 A.M. CDST on \_\_\_\_\_, 2010, the **Effective Date**.

**Sellers EXCEPT and RESERVE from the Leases, Equipment and Contracts:**

- a. **Sellers'** rights, titles, and interests in the **Assets** to the extent such are attributable to any time prior to the **Effective Date**;
  - b. All rights and claims of any nature relating to the **Assets** which **Sellers** have asserted or are entitled to assert and which relate in to any time period prior to the **Effective Date**;
  - c. Except as otherwise specifically herein provided, all monies, proceeds, benefits, receipts, credits, income or revenues relating to the **Assets** and attributable to periods prior to the **Effective Date**;
2. **Purchase Price.** Upon execution of this **Agreement** by all **Sellers** and subject to the other provisions of this **Agreement**, **Buyer** shall pay **Sellers** at closing an amount (the **Purchase Price**) equal to \_\_\_\_\_ together with any amounts due pursuant to Section 6 hereinbelow for delivery of an assignment with a special warranty of title to **Sellers' Interests** by, through and under but not otherwise in the **Assets**.

If less than all **Owners** execute this **Agreement**, then the **Purchase Price** will be proportionately reduced by the ratio of **Sellers'** net revenue interest in each Lease divided by the **Owners'** net revenue interest in each of the same **Leases**. For the purposes hereof, **Buyer** and **Sellers** agree that the **Purchase Price** shall be allocated as follows:

3. **Representations:**

**A. Sellers Representations: EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, THIS PURCHASE AND SALE IS ON AN "AS IS" BASIS, AND SELLERS MAKE NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, OF TITLE QUANTITY, QUALITY, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PURPOSE, SAFETY OF EQUIPMENT, COMPLIANCE WITH GOVERNMENTAL REGULATIONS OR OTHERWISE.**

**Sellers** represent and warrant that there is no pending litigation affecting the **Leases** and **Equipment**, nor is there any unresolved claims regarding salt water contamination of the fresh water aquifer underlying the leases. Each **Seller** also represents and warrants that it has the authority to execute this **Agreement** and the **Assignment** and **Bill of Sale** provided for herein.

Subject to the provisions hereinafter provided, **Buyer** specifically assumes the risk of description, title (other than the special warranty provided for hereinabove) and the condition of the **Assets** and shall inspect the **Leases** and the **Equipment** prior to the **Closing Date**. Such inspection shall cover, but not be limited to, the physical and environmental condition, both surface and subsurface, of the **Leases** and **Equipment**. **Sellers** agree **Buyer** shall have access during normal business hours to the **Assets** for the purpose of inspecting and evaluating the condition and/or quality thereof.

Upon request and until the day of closing, **Sellers** shall make available for examination by **Buyer** such title information, operating agreements, well files, geologic data, and environmental information as may currently exist. Existing abstracts and title opinions will not be brought down to date by **Sellers**. **NO WARRANTY OF ANY KIND IS MADE BY SELLERS AS TO THE INFORMATION SO SUPPLIED** and **Buyer** agrees that any conclusions made therefrom shall be the result of its own independent review and judgment.

**B. Buyers Representations:** Buyers represent and warrant they are duly authorized and existing entities authorized to enter into this Agreement.

4. **Title Defects and/or Adverse Conditions.** If the **Buyer** discovers a material title defect (including exercise of a preferential right to purchase exceeding 20% of the Purchase Price) or material adverse condition of the **Assets** (including, but not limited to, environmental conditions associated with the **Assets** or failure of non-selling owners to vote for \_\_\_\_\_ as successor operator of the **Assets** which is unacceptable to **Buyer**, then **Buyer** shall notify **Sellers** of such defect in writing at least forty eight hours prior to closing. If **Sellers** do not receive timely notice of a title defect or adverse condition, then **Sellers' Interests** in the **Assets** shall be deemed to be free of title defects and adverse conditions. A title defect or adverse condition is herein defined to be one which requires more than Fifty Thousand Dollars (\$50,000.00) to cure or resolve. Title defects and/or adverse conditions which in total require less than Five Hundred Thousand Dollars (\$500,000.00) to cure or resolve will not constitute a material title defect or adverse condition and will not be cause to reduce the **Purchase Price**.

If **Buyer** timely notifies **Sellers** of a material title defect(s) and/or adverse condition(s) and if **Sellers** and **Buyer** cannot agree upon a cure of such defect or condition prior to the **Closing Date** or if the **Buyer** and **Sellers** do not agree to

- (i) proceed with closing after agreeing to reduce the purchase price by an amount commensurate with the title defect or environmental condition, or
- (ii) proceed with closing after agreeing to reduce the purchase price and to remove the **Sellers' Interest** subject to the title defect or the portion of the **Assets** subject to the adverse environmental condition,

then either **Buyer** or **Sellers** may terminate this **Agreement** by written notice to the other party twenty four hours prior to the **Closing Date**. **Sellers** hereby authorize \_\_\_\_\_ as their Agent for the purpose of sending and receiving notice of termination pursuant to this paragraph.

5. **Reservations.**

a) Oil in tanks above the pipeline connection on the **Effective Date** shall not be part of this purchase and sale, but shall remain the property of **Sellers**. Gas produced and sold prior to the **Effective Date** shall likewise not be part of this purchase and sale but shall remain the property of **Sellers**.

b) **Sellers** expressly except from this **Agreement** and reserve unto themselves, their respective heirs, successors, and assigns all of their respective rights, titles, and interests in the **Leases** insofar as they cover lands or depths not included in the description of the **Leases** in Exhibit A hereof; together with the associated right to use the surface of the lands covered by the **Leases** for the exploration and development of their reserved leasehold interests in the **Leases**.

6. **Closing.** The closing of this purchase and sale shall occur at **Sellers'** offices on or before **2010**, (the **Closing Date**) or at such other time or place as may be mutually agreed upon by **Sellers** and **Buyer**. At Closing **Sellers** shall deliver to **Buyer** a duly executed recordable Assignment and Bill of Sale conveying **Sellers' Interests** in the **Assets** to **Buyer** and incorporating the terms and provisions of this **Agreement** and such other terms as are mutually acceptable by the parties hereto.

At **Closing Buyer** shall pay to **Sellers** the sum of the following:

- a. The **Purchase Price** as set forth in Section 2 hereinabove
- b. **LESS** any defect adjustments agreed to pursuant to Section 2 above

- c. **PLUS** an amount equal to **Sellers'** net revenue interest share of any oil in storage tanks above the pipeline connection on the **Effective Date**, calculated using November, 2010, sales prices for oil sold from the property.
- d. **PLUS Sellers'** leasehold interest share of the 2010 ad valorem property tax on the **Assets** multiplied by 1/12

At closing, **Sellers** will execute and deliver Texas Railroad Commission forms P-4, Change of Operator, designating \_\_\_\_\_ as Operator of the \_\_\_\_\_ Lease and the Unit, transfer orders or Letters-in-Lieu thereof, and release of liens, if any, directing purchasers of production to make payment to **Buyers** on production from the assigned oil and gas properties after the **Effective Date**. At closing **Sellers** agree to deliver to **Buyer** all available copies of information and/or data (including, but not limited to, leases, title opinions, division orders, logs, Railroad Commission permits, geologic data, well files, and maintenance records, etc.) concerning the **Assets** which **Sellers** possess.

7. **Liabilities and Indemnities After Closing.** **Buyer** agrees to plug and abandon any Wells regardless of when drilled, located on the **Leases** in accordance with all applicable governmental regulations and hereby agrees to **RELEASE, PROTECT, INDEMNIFY AND HOLD SELLERS HARMLESS FROM** any and all liabilities arising from buyer's failure to plug and abandon such wells.

**Buyer** shall observe and comply with all covenants, terms, and provisions, express or implied, contained in the agreements, leases, easements, and all other contracts appertaining to **Sellers' Assets** and this purchase and sale is made expressly subject to all such agreements, leases, easements, and other contracts, whether or not the same are herein specifically identified.

**A. Buyer's Indemnities.** BUYER ACKNOWLEDGES THAT (i) IT HAS BEEN AFFORDED AN OPPORTUNITY TO (a) EXAMINE THE ASSETS AND SUCH MATERIALS AS IT HAS REQUESTED TO BE PROVIDED TO IT BY SELLERS; (b) DISCUSS WITH REPRESENTATIVES OF SELLERS SUCH MATERIALS AND THE NATURE AND OPERATION OF THE ASSETS; AND (c) INVESTIGATE THE CONDITION, INCLUDING SUBSURFACE CONDITION OF THE REAL PROPERTY AND THE CONDITION OF THE EQUIPMENT; (ii) IT HAS ENTERED INTO THIS AGREEMENT ON THE BASIS OF ITS OWN INVESTIGATION OF THE PHYSICAL CONDITION OF THE ASSETS INCLUDING SUBSURFACE CONDITION; (iii) THE ASSETS HAVE BEEN USED IN THE MANNER AND FOR THE PURPOSES SET FORTH ABOVE AND THAT PHYSICAL CHANGES TO THE ASSETS MAY HAVE OCCURRED AS A RESULT OF SUCH USE; (iv) IN ENTERING INTO THIS AGREEMENT, BUYER HAS RELIED SOLELY ON ITS INDEPENDENT INVESTIGATIONS AND JUDGMENTS WITH RESPECT TO THE EQUIPMENT AND THE OTHER ASSETS AND THE ADVICE OF ITS OWN LEGAL, TAX, ECONOMIC, ENVIRONMENTAL ENGINEERING, GEOLOGICAL AND GEOPHYSICAL ADVISORS AND NOT ON ANY COMMENTS OR STATEMENTS OF ANY REPRESENTATIVES OF OR CONSULTANTS OR ADVISORS ENGAGED BY SELLERS, AND (v) LOW LEVELS OF NATURALLY OCCURRING RADIOACTIVE MATERIAL (NORM) AND MAN-MADE MATERIAL FIBERS (MMMFM) MAY BE PRESENT AT SOME LOCATIONS. BUYER ACKNOWLEDGES THAT NORM IS A NATURAL PHENOMENON ASSOCIATED WITH MANY OIL FIELDS IN THE U.S. AND THROUGHOUT THE WORLD. BUYER ACKNOWLEDGES THAT IT MUST MAKE ITS OWN DETERMINATION OF THIS PHENOMENON AND OTHER CONDITIONS. SELLERS DISCLAIM ANY LIABILITY ARISING OUT OF OR IN CONNECTION WITH ANY PRESENCE OF NORM OR MMMFM ON THE ASSETS AND EFFECTIVE AT CLOSING. BUYER SHALL ASSUME THE RISK THAT THE ASSETS MAY CONTAIN WASTES, CONTAMINANTS OR POLLUTION, AND THAT ADVERSE PHYSICAL CONDITIONS, INCLUDING

THE PRESENCE OF WASTES, CONTAMINANTS OR POLLUTION, MAY NOT HAVE BEEN REVEALED BY BUYER'S INVESTIGATION. MOREOVER, BUYER SHALL INDEMNIFY SELLERS AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, PARTNERS, AND AGENTS FROM ANY AND ALL LIABILITIES, COSTS, EXPENSES AND CLAIMS OF ANY KIND OR CHARACTER FOR THE PRESENCE OF NORM OR OTHER WASTES, CONTAMINATES OR POLLUTION LOCATED ON THE ASSETS, REGARDLESS HOW SUCH CONDITIONS AROSE OR WHEN SUCH CONDITIONS FIRST OCCURRED (EITHER BEFORE OR AFTER THE EFFECTIVE DATE). EFFECTIVE AT CLOSING, ALL RESPONSIBILITY AND LIABILITY RELATED TO DISPOSAL, SPILLS, WASTE, CONTAMINANTS OR POLLUTION ON AND BELOW THE ASSETS SHALL BE TRANSFERRED FROM SELLER TO BUYER AND BUYER SHALL INDEMNIFY, DEFEND, SAVE, DISCHARGE, RELEASE AND HOLD SELLERS HARMLESS THEREFROM.

BUYER SHALL INDEMNIFY SELLERS AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, PARTNERS, AND AGENTS, FROM ANY AND ALL LIABILITIES, COSTS, EXPENSES AND CLAIMS OF ANY KIND OR CHARACTER ARISING OUT OF, IN CONNECTION WITH, OR RELATING TO THE ASSETS OCCURRING ON OR AFTER THE EFFECTIVE DATE, AND REGARDLESS OF ANY SOLE, JOINT OR CONCURRENT NEGLIGENCE, LIABILITY, BREACH OR OTHER FAULTS OR RESPONSIBILITY OF SELLERS OR ANY THIRD PERSON. ON THE EFFECTIVE DATE, BUYER SHALL ASSUME AND SHALL FULLY SATISFY ALL OF SELLERS' OBLIGATIONS AND RESPONSIBILITIES WITH RESPECT TO (i) THE ASSETS, INCLUDING, BUT NOT LIMITED TO THE TERMS AND PROVISIONS OF THE LEASES AND CONTRACTS AFTER THE EFFECTIVE DATE AND, (ii) ALL LAWS AND REGULATIONS, INCLUDING, BUT NOT LIMITED TO APPLICABLE ENVIRONMENTAL LAWS, AND ALL PLUGGING AND ABANDONMENT OBLIGATIONS AND RESPONSIBILITIES BEFORE AND AFTER THE EFFECTIVE DATE. BUYER COVENANTS NOT TO SUE SELLERS OR THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, PARTNERS AND AGENTS WITH REGARD TO ANY CLAIM OR LIABILITY RELATING TO THE ASSETS OR TO ACTIONS, EVENTS, OR CONDITIONS OCCURRING ON OR AFTER THE EFFECTIVE DATE.

**B. Sellers' Indemnity.** SELLERS SHALL INDEMNIFY BUYERS AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, PARTNERS, AND AGENTS, FROM ANY AND ALL LIABILITIES (OTHER THAN ENVIRONMENTAL), COSTS, EXPENSES AND CLAIMS OF ANY KIND OR CHARACTER ARISING OUT OF, IN CONNECTION WITH, OR RELATING TO THE ASSETS, OCCURRING BEFORE THE EFFECTIVE DATE AND REGARDLESS OF ANY SOLE JOINT OR CONCURRENT NEGLIGENCE, LIABILITY, BREACH OR OTHER FAULTS OR RESPONSIBILITY OF BUYERS OR ANY THIRD PERSON.

8. **Encumbered Properties.** Upon closing, each **Seller** agrees to convey such **Seller's Interests** in the **Assets** free of any liens or mortgages created by such **Seller**. Should the **Assets** or any portion thereof require third party consent to assign, **Sellers** shall endeavor to obtain the necessary consent, but shall have no liability to **Buyer** by reason of its inability or failure to do so. In the event **Sellers** are unable to obtain such consent, **Buyer** may elect not to purchase the portion of the **Assets** affected and the purchase price shall be reduced by an amount agreed upon by all parties.
9. **Taxes.** **Sellers** shall be responsible for their **Interest** share of oil and gas production taxes and any other severance or similar taxes applicable to oil and gas production occurring prior to the **Effective Date** and **Buyer** shall be responsible for **Sellers' Interest** share of such taxes applicable to oil and gas production occurring on and after the **Effective Date**.

Ad valorem taxes and other property taxes assessed attributable to **Sellers' Interests** in the **Assets** for the year 2011 and thereafter shall be borne entirely by the **Buyer**. **Sellers** agree to pay for the year 2010 and shall be entitled to payment from **Buyer** at **Closing** of 1/12<sup>th</sup> of the 2010 ad valorem taxes charged to the **Sellers**.

10. **Interim Operations and Risk of Loss.** Upon closing this **Agreement**, **Buyer** shall be responsible for **Sellers' Interests** share of the costs and expenses incurred by **Sellers** for operation of the **Leases** after the **Effective Date** of this **Agreement** pursuant to the existing operating agreement. **Sellers** shall prepare and submit to **Buyer** within sixty (60) days of closing a post closing settlement of expenses incurred and revenues received by **Sellers** attributable to operations from the **Effective Date** to the **Closing Date**. **Buyer** and **Sellers** agree to resolve any questions and to pay amounts due attributable to operations in the interim period within thirty (30) days of **Buyer's** receipt of **Sellers'** settlement statement.

Prior to the **Closing Date** and without the written consent of the **Buyer**, **Sellers** shall not make or approve any purchase or sale of **Equipment**, the drilling, re-working, or plugging back of any well, or the removal of any **Equipment** from the **Leases**. To the extent that **Sellers** incur any obligation or expense in connection with the operation of the **Leases** subsequent to the **Effective Date**, **Buyer** shall hold **Sellers** harmless from such obligation or expense. In the event any part of the **Assets** are damaged or destroyed by fire or other calamity after the **Effective Date**, but prior to the **Closing Date**, then such loss shall be borne by **Buyer** and **Buyer** shall be entitled to **Sellers' Interests** share of any insurance proceeds due **Sellers** under the terms of any insurance policy maintained pursuant to an existing operating agreement by the lease operator for the **Sellers'** benefit.

11. **Waiver of Texas DTPA.** **Buyer** hereby waives the provisions of the Texas Deceptive Trade Practices Act, Chapter 17, Subchapter E, Section 17.41 - 17.63 inclusive, Texas Business & Com. Code, except Section 17.55A, which is not waived.

**IN ORDER TO EVIDENCE ITS ABILITY TO GRANT SUCH WAIVER, BUYER HEREBY REPRESENTS AND WARRANTS TO SELLERS THAT BUYER (i) IS IN THE BUSINESS OF SEEKING OR ACQUIRING, BY PURCHASE OR LEASE, GOODS OR SERVICES FOR COMMERCIAL OR BUSINESS USE, (ii) HAS KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS THAT ENABLE IT TO EVALUATE THE MERITS AND RISKS OF THE TRANSACTION CONTEMPLATED HEREBY, AND (iii) IS NOT IN A SIGNIFICANTLY DISPARATE BARGAINING POSITION.**

12. **Entire Agreement.** This **Agreement** constitutes the entire understanding between **Sellers** and **Buyer** with regard to the subject matter hereof, superseding all prior statements, representations, discussions, agreements, and understandings. The performance and interpretation of this **Agreement** shall be under and pursuant to the Laws of the State of Texas.
13. **Survival of Agreement.** It is understood the covenants and agreements of **Buyer** and **Seller** herein contained shall survive the closing of this **Agreement**, the execution of an Assignment and Bill of Sale by **Seller**, and the delivery of the **Assets** to **Buyer**.
14. **Counterpart Execution.** This **Agreement** may be executed in any number of counterparts, each of which shall be binding on the parties executing same and shall be considered an original for all purposes.
15. **Assignment.** A form of assignment is attached as Exhibit B which is incorporated herein by reference.
16. **Like-Kind Exchanges.** Each party consents to the other party's assignment of its rights and obligations under this Agreement to Petroleum Strategies Inc., the Qualified Intermediary (as that term is defined in Section 1.1031(k)-1(g)(4)(v) of the Treasury Regulations), or to its Qualified Exchange Accommodation Titleholder (as that term is

defined in Rev. Proc. 2000-37), in connection with effectuation of a like-kind exchange. However, Seller and Buyer acknowledge and agree that any assignment of this Agreement to Petroleum Strategies, or to a Qualified Exchange Accommodation Titleholder, does not release either party from any of their respective liabilities and obligations to each other under the Agreement. Each party agrees to cooperate with the other to attempt to structure the transaction as a like-kind exchange.

**BUYERS**

\_\_\_\_\_

By:

\_\_\_\_\_

By:

**SELLERS**