FORM 8-K

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ARENA RESOURCES INC

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SIC: **1311** Crude petroleum & natural gas

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earlier event reported) May 7, 2004

ARENA RESOURCES, INC.
(Exact name of registrant as specified in its charter)

Commission File Number 001-31657

Nevada	001-31657	73-1596109
(State or other jurisdiction of Incorporation)	(Commission (file number)	(I.R.S. Employer Identification No.)

4920 South Lewis Street, Suite 107
Tulsa, Oklahoma 74105
(Address of principal executive offices)

(918) 747-6060
(Issuer' s telephone number)

Item 2 – Acquisition or Disposition of Assets

On May 7, 2004, the Company consummated a transaction pursuant to which it acquired an 82.24% working interest, 67.30% net revenue interest, in the East Hobbs San Andres Property mineral lease ("East Hobbs") located in Lea County, New Mexico. The East Hobbs lease was acquired from Enerquest Oil and Gas, Ltd., an unaffiliated company. Pursuant to the agreement, the acquisition was effective March 1, 2004. Therefore, the results of East Hobbs' operations are included in the historical financial statements of the Company from March 1, 2004.

East Hobbs is comprised of 20 operating oil and gas wells that were unitized into one lease prior to the acquisition. The aggregate purchase price was $10,015,470, which was paid at closing. The acquisition was funded through the use of a credit facility and bridge financing, secured from MidFirst Bank.

Item 7 – Financial Statements and Exhibits

ARENA RESOURCES, INC.
EAST HOBBS SAN ANDRES PROPERTY INTERESTS ACQUIRED
UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma condensed statements of operations have been prepared to present the operations of the Company for the three months ended March 31, 2004 and for the year ended December 31, 2003 as though the acquisition of East Hobbs had occurred at the beginning of the periods presented. The unaudited pro forma financial information is illustrative of the

effects of the acquisition on operations of the Company and does not necessarily reflect the results of operations that would have resulted had the acquisition actually occurred at those dates. In addition, the pro forma financial information is not necessarily indicative of the results that may be expected for the year ending December 31, 2004, or any other period.

ARENA RESOURCES, INC.
UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004

	Arena Historical	East Hobbs Property		Pro Forma
Oil and Gas Revenues	$ 1,409,719	$ 403,771	(1)	$ 1,813,490
Costs and Operating Expenses				
Oil and gas production costs	409,333	79,450	(1)	488,783
Oil and gas production taxes	100,721	35,021	(1)	135,742
Depreciation, depletion and amortization	117,448	34,512	(2)	151,960
		-		
General and administrative expense	178,202			178,202
Total Costs and Operating Expenses	805,704	148,983		954,687
Other Income (Expense)				
Accretion expense	(12,532)	(772)	(3)	(13,304)
Interest expense	(9,114)	(86,562)	(4)	(95,676)
Net Other Expense	(21,646)	(87,334)		(108,980)
Income Before Provision for Income Taxes	582,369	167,454		749,823
Provision for Deferred Income Taxes	213,971	55,440	(5)	269,411
Net Income	$ 368,398	$ 112,014		$ 480,412
Basic Income Per Common Share	$ 0.05			$ 0.07
Diluted Income Per Common Share	$ 0.05			$ 0.06
Basic Weighted-Average Common Shares Outstanding	7,163,734			7,163,734
Effect of dilutive securities:				
Warrants	429,739			429,739
Stock options	243,441			243,441
Diluted Weighted-Average Common Shares Outstanding	7,836,914			7,836,914

See the accompanying notes to unaudited pro forma condensed statements of operations.

ARENA RESOURCES, INC.
UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Arena Historical	East Hobbs Property	Pro Forma
Oil and Gas Revenues	$ 3,665,477	$ 2,289,659 (1)	$ 5,955,136
Costs and Operating Expenses			
Oil and gas production costs	1,149,136	588,692 (1)	1,737,828
Oil and gas production taxes	269,563	195,473 (1)	465,036
Depreciation, depletion and amortization	338,157	236,601 (2)	574,758
General and administrative expense	557,576	-	557,576
Total Costs and Operating Expenses	2,314,432	1,020,766	3,335,198
Other Income (Expense)			
Gain from change in fair value of put options	47,699	-	47,699
Accretion expense	(32,212)	(2,852) (3)	(35,064)
Interest expense	(38,798)	(354,813) (4)	(393,611)
Net Other Expense	(23,311)	(357,665)	(380,976)
Income from Operations Before Provision for Income Taxes and Cumulative Effect of Change in Accounting Principle	1,327,734	911,228	2,238,962
Provision for Deferred Income Taxes	(491,599)	(303,791) (5)	(795,390)
Income from Operations Before Cumulative Effect of Change in Accounting Principle	$ 836,135	$ 607,437	$ 1,443,572
Income from Operations Before Cumulative Effect of Change in Accounting Principle per Share			
Basic	$ 0.12		$ 0.21
Diluted	$ 0.12		$ 0.20
Basic Weighted-Average Common Shares Outstanding	6,759,858		6,759,858
Effect of dilutive securities:			
Warrants	231,476		231,476
Stock options	250,342		250,342
Diluted Weighted-Average Common Shares Outstanding	7,241,676		7,241,676

See the accompanying notes to unaudited pro forma condensed statements of operations.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED STATEMENTS OF OPERATIONS

(1) To record the operating revenues and oil and natural gas production expenses from East Hobbs. The pro forma adjustments for the three months ended March 31, 2004 include the operations of East Hobbs for the two months ended February 29,

2004. The operations of East Hobbs for the month ended March 31, 2004 are included in the Arena historical condensed statement of operations for the three months ended March 31, 2004.

(2) To record amortization of oil and gas properties based on the oil and gas production occurring during the period.

(3) To record accretion of the asset retirement obligation.

(4) To record interest on Arena' s revolving credit facility and bridge financing arrangement, both used to acquire East Hobbs. On April 14, 2004, the Company established a $15,000,000 revolving credit facility from MidFirst Bank with an $8,500,000 initial borrowing base. On May 7, 2004, the Company borrowed $8,008,440 under the terms of the revolving credit facility to fund the acquisition of East Hobbs. The interest rate on the revolving credit facility is a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2.25%, currently 3.42% per annum, and is payable monthly. Amounts borrowed under the revolving credit facility are due April 2007. The revolving credit facility is secured by the Company' s principal mineral interests.

On April 14, 2004, Arena entered into to a bridge financing arrangement for $2,000,000 from MidFirst Bank. On May 7, 2004, the Company borrowed $2,000,000 under the terms of the bridge financing arrangement to fund the acquisition of East Hobbs. The interest rate on the bridge financing arrangement is a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2.25%, currently 3.42% per annum, and is payable monthly. The bridge financing has been guaranteed by two of the Company' s officers. Amounts borrowed under the revolving credit facility are due June 30, 2004.

(1) To record income taxes on the pro forma income from East Hobbs.

HANSEN, BARNETT & MAXWELL
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CERTIFIED PUBLIC ACCOUNTANTS
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Registered with the Public Company Accounting Oversight Board

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Arena Resources, Inc.

We have audited the accompanying statements of oil and gas revenues and direct operating costs of the East Hobbs San Andres Property interests acquired for the years ended December 31, 2003 and 2002 (the "financial statements"). The financial statements present only the revenues and direct operating costs of the East Hobbs San Andres Property interests acquired by Arena Resources, Inc. on March 1, 2004. The financial statements are the responsibility of Crown Quest Operating LLC' s management, the operator of the East Hobbs San Andres Property through February 29, 2004. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the oil and gas revenues and direct operating costs of the East Hobbs San Andres Property interests acquired, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the financial statements are not a complete presentation of the operations of the East Hobbs San Andres Property interests acquired.

/s/ HANSEN, BARNETT & MAXWELL
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
April 23, 2004

ARENA RESOURCES, INC.
EAST HOBBS SAN ANDRES PROPERTY INTERESTS ACQUIRED

STATEMENTS OF OIL AND GAS REVENUES AND DIRECT OPERATING COSTS

	For the Two Months Ended February 29, 2004	For the Years Ended December 31,	
		2003	2002
	(Unaudited)		
Oil and Gas Revenues	$ 403,771	$ 2,289,659	$ 2,250,821
Direct Operating Costs			
Oil and gas production costs	79,451	588,692	573,055
Oil and gas production taxes	35,021	195,473	192,213
Total Direct Operating Costs	114,472	784,165	765,268
Direct Operating Profit	$ 289,299	$ 1,505,494	$ 1,485,553

NOTE TO STATEMENTS OF OIL AND GAS REVENUES AND DIRECT OPERATING COSTS

Basis of Presentation – The accompanying financial statements present only the oil and gas revenues and direct operating costs of the East Hobbs San Andres Property interests acquired by Arena Resources, Inc. on March 1, 2004.

Oil and gas revenues are recognized when sold and delivered to third parties. Direct operating costs are recognized when incurred and include lease operating costs and production taxes directly related to the property interests acquired. Direct operating costs exclude costs associated with acquisition, exploration, and development of oil and gas properties, geological and geophysical expenditures and costs of drilling and equipping productive and non-productive wells. Depreciation and amortization of the oil and gas property interests, general and administrative expense, interest and accretion expense, income taxes and other indirect expenses have been excluded from direct operating profit because their historical amounts would not be comparable to those resulting from future operations; accordingly, the accompanying financial statements are not a complete presentation of the operations of the East Hobbs San Andres Property interests acquired.

ARENA RESOURCES, INC.
EAST HOBBS SAN ANDRES PROPERTY INTERESTS ACQUIRED
SUPPLEMENTAL INFORMATION ON OIL AND GAS RESERVES (CONTINUED)
(UNAUDITED)

The following estimates of proved reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values. Reserve estimates are inherently imprecise and estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the reserves are located in the United States of America.

Reserve Quantities Information – Proved reserves are estimated reserves of crude oil (including condensate and natural gas liquids) and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment and methods.

For the Years Ended December 31,	**2003**		**2002**	
	Oil [1]	**Gas [1]**	**Oil [1]**	**Gas [1]**
Proved Developed and Undeveloped Reserves				
Beginning of year	5,946,202	3,444,862	6,029,386	3,553,075
Production	(68,415)	(89,497)	(83,184)	(108,213)
End of Year	5,877,787	3,355,365	5,946,202	3,444,862
Proved Developed Reserves at End of Year	1,456,082	1,945,448	1,524,497	2,034,945

[1] Oil reserves are stated in barrels; gas reserves are stated in thousand cubic feet.

Standardized Measure of Discounted Future Net Cash Flows – The standardized measure of discounted future net cash flows is computed by applying year-end prices of oil and gas to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses (based on year-end statutory tax rates) to be incurred on pretax net cash flows less tax basis of the properties and available credits, and assuming continuation of existing economic conditions. The estimated future net cash flows are then discounted using a rate of 10 percent per year to reflect the estimated timing of the future cash flows.

December 31,	**2003**	**2002**
Future cash inflows	$ 187,753,265	$ 153,446,868
Future production and development costs	(43,239,471)	(43,661,859)
Future income taxes	(49,134,690)	(37,326,903)
Future net cash flows	95,379,104	72,458,106
10% annual discount for estimated timing of cash flows	(47,472,124)	(37,859,844)
Standardized Measure of Discounted Future Net Cash Flows	$ 47,906,980	$ 34,598,262

Changes in the Standardized Measure of Discounted Future Net Cash Flows

For the Years Ended December 31,	**2003**	**2002**
Beginning of the year	$ 34,598,262	$ 24,648,690
Sales of oil and gas produced, net of production costs	(1,505,494)	(1,485,553)
Accretion of discount	3,470,840	2,452,009
Net changes in prices and production costs	18,199,378	14,108,652
Net change in income taxes	(6,856,006)	(5,125,536)
End of the Year	$ 47,906,980	$ 34,598,262

Exhibits

10.1	East Hobbs Purchase and Sales Agreement Dated April 22, 2004
10.2	Loan Agreement between Arena Resources, Inc. and MidFirst Bank dated April 14, 2004
10.3	Loan Agreement Amendment between Arena Resources, Inc. and MidFirst Bank dated May 7, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARENA RESOURCES, INC.

Dated: May 17, 2004

By: /s/ William R. Broaddrick

William R. Broaddrick

Vice President, Chief Financial Officer

EXHIBIT 10.1

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (this "Agreement"), dated as of April 22, 2004, is by and among **ENERQUEST OIL & GAS, LTD.**, a Texas limited partnership, whose address is 303 W. Wall, Suite 1400, Midland, Texas 79701 ("EnerQuest"); **DINGUS INVESTMENTS, INC.**, a Texas corporation, whose address is P. O. Box 11120, Midland, Texas 79702 ("Dingus"); **CRUMP FAMILY PARTNERSHIP, LTD.,** a Texas limited partnership, whose address is P. O. Box 50820, Midland, Texas 79710 (“Crump”); **LONE STAR OIL & GAS, INC.,** a Texas corporation, whose address is P. O. Box 2735, Midland, Texas 79702 (“Lone Star”); **KITE ROYALTY CO., LLC,** an Oklahoma limited liability company, whose address is P. O. Box 54926, Oklahoma City, Oklahoma 73154 (“Kite”); **WHITE STAR ROYALTY CO., LLC,** an Oklahoma limited liability company, whose address is P. O. Box 18693, Oklahoma City, Oklahoma 73154 (“White Star”);**JHJ OIL, LLC**, a Texas limited liability company, whose address is P. O. Box 251222, Plano, Texas 75025 ("JHJ"); **MCH OIL, LLC,** a Texas limited liability company, whose address is P. O. Box 251222, Plano, Texas 75025 ("MCH"); **CHRISTOPHER P. RENAUD AND WIFE, COURTNEY H. RENAUD**, whose address is P. O. Box 11301, Midland, Texas 79702; **ERAM ALI AND WIFE, VICKI J. ALI**, whose address is P. O. Box 81052, Midland, Texas 79702; **DOUGLAS H. CHRISTENSEN AND WIFE, CHERYL A. CHRISTENSEN,** whose address is P. O. Box 3790, Midland, Texas 79702; and **DAVID H. ARRINGTON AND WIFE, SHELLY ARRINGTON,** whose address is P. O. Box 2071, Midland, Texas 79702 (collectively, “Seller” or "Sellers"), and **ARENA RESOURCES INC.,** a Nevada corporation, whose address is 4920 South Lewis, Suite 107, Tulsa, Oklahoma 74105 ("Buyer"). Seller and Buyer are sometimes together referred to herein as the "Parties".

W I T N E S S E T H:

WHEREAS, Seller owns certain oil and gas leasehold interests and related assets more fully described on the exhibits hereto; and

WHEREAS, Seller desires to sell and Buyer desires to acquire these interests and related assets on the terms and conditions hereinafter provided;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, Seller and Buyer hereby agree as follows:

ARTICLE . - DEFINITIONS

.. **"Agreement"** shall mean this Purchase and Sale Agreement between Seller and Buyer.

1.2. “**Allocated Value**” shall mean that portion of the unadjusted Purchase Price allocated to any Asset by Buyer, with Seller’ s concurrence, as reflected on the Exhibit “B” that is attached hereto.

.3. **"Assets"** shall mean all of the Seller’ s right, title, and interest in and to the following described assets and properties (except to the extent constituting Excluded Assets):

() the Leases;
(b) the Surface Interest;
(c) the Personal Property and Incidental Rights; and

(d) the Inventory Hydrocarbons

.4. "Assumed Obligations" shall mean, to the extent, and only to the extent, of the proportionate interest in the Assets that Buyer acquires from Seller at Closing, the following:

() all Environmental Obligations or Liabilities associated with the ownership, operation or use of the Assets that arise out of the ownership, operation, or use of the Assets after the Effective Time;

(b) all obligations with respect to gas production, sales or, subject to Article 18, processing imbalances with third parties;

(c) all liabilities, duties, and obligations that arise out of the ownership, operation or use of the Assets after the Effective Time; and

(d) all obligations for payment of amounts held in suspense with respect to the Assets by Seller for the account of third parties as of the Closing Date.

.5. "Closing" shall be as defined in Section 13.1.

.6. "Closing Date" shall be as defined in Section 13.1.

.7. "Effective Time" shall mean 7:00 a.m., local time, on March 1, 2004.

1.8 "**Environmental Defect**" shall mean: (i) a condition or activity with respect to an Asset that is in violation of any federal or state statute or regulation ("Environmental Law") relating to natural resources, conservation, the environment, or the emission, release, storage, treatment, disposal, transportation, handling or management of industrial or solid waste, hazardous waste, hazardous or toxic substances, chemicals or pollutants, petroleum, including crude oil, natural gas, natural gas liquids, or liquefied natural gas, and any wastes associated with the exploration and production of oil and gas ("Regulated Substances"); or (ii) the presence of Regulated Substances in the soil, groundwater, or surface water in, on, at or under an Asset in any manner or quantity which is required to be remediated by Environmental Law or by any applicable action or guidance levels or other standards published by any governmental agency with jurisdiction over the Assets.

.9. "Environmental Obligations or Liabilities" shall mean all liabilities, obligations, expenses (including, without limitation, all attorneys' fees), fines, penalties, costs, claims, suits or damages (including natural resource damages) of any nature, associated with the Assets and attributable to or resulting from: () pollution or contamination of soil, groundwater or air, on the Assets and any other contamination of or adverse effect upon the environment, () underground injection activities and waste disposal, () clean-up responses, remedial, control or compliance costs, including the required cleanup or remediation of spills, pits, ponds, or lagoons, including any subsurface or surface pollution caused by such spills, pits, ponds, or lagoons, () noncompliance with applicable land use, permitting, surface disturbance, licensing or notification requirements, () all obligations for plugging, replugging and abandoning any wells, the restoration of any well sites, tank battery sites and gas plant sites, the proper removal, disposal and abandonment of any wastes or fixtures, and the proper capping and burying of all flow lines, which are included in the Assets; and (vi) violation of any Environmental Law.

.10. "Excluded Assets" shall mean the following:

() all of Seller's royalty, overriding royalty and fee mineral interests in the Leases, in the lands covered by the Leases and/or in lands pooled, unitized or communitized with lands covered by the Leases, except Seller' s interest in the Wrather Term Royalty Interest;

(b)

() all trade credits, accounts receivable, notes receivable and other receivables attributable to Seller's interest in the Assets with respect to any period of time prior to the Effective Time; () all deposits, cash, checks in process of collection, cash equivalents and funds attributable to Seller's interest in the Assets with respect to any period of time prior to the Effective Time; and () subject to Article 18, all proceeds, benefits, income or revenues accruing (and any security or other deposits made) with respect to the Assets prior to the Effective Time;

(c) all corporate, financial, and tax records, economic evaluations and reserve reports of Seller and all records that are subject to the attorney/client or work product privilege (other than any and all title opinions covering any interest in the Assets); however, Buyer shall be entitled to receive copies of any tax records which directly relate to any Assumed Obligations, or which are necessary for Buyer's ownership, administration, or operation of the Assets;

(d) all claims and causes of action of Seller arising from acts, omissions or events, or damage to or destruction of the Assets, occurring prior to the Effective Time;

(e) except as otherwise provided in Article 15, all rights, titles, claims and interests of Seller relating to the Assets prior to the Effective Time () under any policy or agreement of insurance or indemnity; () under any bond; or () to any insurance or condemnation proceeds or awards;

(f) all Hydrocarbons produced from or attributable to the Assets with respect to all periods prior to the Effective Time, together with all proceeds from or of such Hydrocarbons, except the Inventory Hydrocarbons;

(g) claims of Seller for refund of or loss carry forwards with respect to production, windfall profit, severance, ad valorem or any other taxes attributable to any period prior to the Effective Time, or income or franchise taxes;

(h) all amounts due or payable to Seller as adjustments or refunds under any contracts or agreements (including take-or-pay claims) affecting the Assets, respecting periods prior to the Effective Time;

(i) all amounts due or payable to Seller as adjustments to insurance premiums related to the Assets with respect to any period prior to the Effective Time;

(j) all proceeds, benefits, income or revenues accruing (and any security or other deposits made) with respect to the Assets, and all accounts receivable attributable to the Assets, prior to the Effective Time;

(k) all of Seller's intellectual property, including, but not limited to, proprietary computer software, patents, trade secrets, copyrights, names, marks and logos; and

(l) all of Seller's remote terminal units, automobiles and trucks located on or used in connection with the Assets.

.11. "Hydrocarbons" shall mean crude oil, natural gas, casinghead gas, condensate, sulphur, natural gas liquids and other liquid or gaseous hydrocarbons (including CO_2), and shall also refer to all other minerals of every kind and character which may be covered by or included in the Assets.

.12. "Inventory Hydrocarbons" shall mean all merchantable oil and condensate (for oil or liquids in storage tanks, being only the oil or liquids physically above the top of the inlet connection into such tanks) produced from or attributable to the Assets prior to the Effective Time which have not been sold by Seller and are in storage at the Effective Time.

.13.

"Leases" shall mean, except to the extent constituting Excluded Assets, any and all interests owned by Seller in and to (i) the oil, gas and/or mineral leases described on Exhibit A, and (ii) the Wrather Term Royalty Interest.

.14. "Performance Deposit" shall be as defined in Section 3.2.

.15. "Personal Property and Incidental Rights" shall mean all right, title and interest of Seller in and to or derived from the following insofar as the same do not constitute Excluded Assets and are attributable to, appurtenant to, incidental to, or used for the operation of the Leases:

() all easements, rights-of-way, permits, licenses, servitudes or other interests;

() all wells, equipment and other personal property, inventory, spare parts, tools, fixtures, pipelines, platforms, tank batteries, appurtenances, and improvements situated upon the Leases and used or held for use in connection with the development or operation of the Leases or the production, treatment, storage, compression, processing or transportation of Hydrocarbons from or in the Leases;

() all contracts, agreements, and title instruments to the extent attributable to and affecting the Assets in existence at Closing, including all Hydrocarbon sales, purchase, gathering, transportation, treating, marketing, exchange, processing, and fractionating contracts, and joint operating agreements; and

() originals of all lease files, land files, well files, production records, division order files, abstracts, title opinions, and contract files, insofar as the same are directly related to the Leases; including, without limitation, all seismic, geological, geochemical, and geophysical information and data, to the extent that such data is not subject to any third party restrictions, but excluding Seller's proprietary interpretations of same.

1.16. "Purchase Price" shall be as defined in Section 3.1.

1.17. "**Retained Obligations**" shall mean all liabilities, duties, and obligations (including any Environmental Obligations or Liabilities) that arise out of the ownership, operation or use of the Assets prior to the Effective Time, except those specifically included in the definition of "Assumed Obligations."

1.18. "**Surface Interest**" shall mean the interest of EnerQuest in the surface estate of the SW/4, and the S/2 of Lot 3 and all of Lot 4, in Section 29, and of the NE/4 SE/4 of Section 30, all in Township 18 South, Range 39 East, N.M.P.M., Lea County, New Mexico.

1.19. "**Wrather Term Royalty Interest**" shall mean that certain term royalty interest in the NE/4 of Section 30, T-18-S, R-29-E, Lea County, New Mexico, limited in depth from the surface to the base of the San Andres formation, acquired by David Wrather from Russell T. Rudy and wife, Kathy J. Rudy, pursuant to Deed of Term Royalty in Lease dated May 1,1996, recorded in Volume 799, Page 485, Lea County Records, Lea County, New Mexico.

ARTICLE . - AGREEMENT TO PURCHASE AND SELL

Subject to the terms and conditions of this Agreement, Seller agrees to sell and convey to Buyer and Buyer agrees to purchase and pay for the Assets and to assume the Assumed Obligations.

ARTICLE . - PURCHASE PRICE AND PAYMENT

.. Purchase Price.

Subject to adjustment as set forth below, the Purchase Price for the Assets shall be **NINE MILLION NINTY-SEVEN THOUSAND SEVEN HUNDRED SEVENTY-TWO AND 70/100 DOLLARS ($9,097,772.70)**, allocated among the Assets as provided in Exhibit B.

.. **Performance Deposit.**

Immediately upon the execution hereof, Buyer shall tender to Seller, by bank wire transfer or cashier' s check, a Performance Deposit in the amount of One Million and No/100 Dollars ($1,000,000), which Performance Deposit shall be non-interest-bearing and refundable only as provided herein. As provided in Article 13 below, the Performance Deposit shall be applied against the Purchase Price at Closing.

.. **Final Settlement/Purchase Price Adjustments.**

Within 90 days after Closing, Seller shall provide to Buyer, for Buyer's concurrence, an accounting (the "Final Settlement Statement") of the actual amounts of Seller's and Buyer's Credits for the adjustment set out in this Section 3.3. Buyer shall have the right for 30 days after receipt of the Final Settlement Statement to audit and take exceptions to such adjustments. The Parties shall attempt to resolve any disagreements on a best efforts basis. Those credits agreed upon by Buyer and Seller shall be netted and the final settlement shall be paid as directed in writing by the receiving party, on final adjustment by the party owing it (the "Final Settlement").

The Purchase Price shall be adjusted as follows:

() The Purchase Price shall be adjusted upward by the following ("Seller's Credits"):

() the value of () all Inventory Hydrocarbons, such value to be based upon the prevailing market value for crude oil in effect as of the Effective Time adjusted for grade and gravity, less taxes and transportation fees deducted by the purchaser of such oil, such oil to be measured at the Effective Time by the operators of the Assets; and () the value of all of Seller's unsold inventory of gas plant products, if any, attributable to the Leases at the Effective Time valued in the same manner as if such products had been sold under the contract then in existence between Seller and the purchaser of such products or, if there is no such contract, valued in the same manner as if said products had been sold at the posted price for said products;

() the amount of all production expenses, operating expenses and expenditures incurred by Seller and attributable to the operation of the Assets after the Effective Time;

(3) an amount equal to the sum of any upward adjustments provided elsewhere in this Agreement; and

(4) any other amount agreed upon by Seller and Buyer in writing prior to Closing.

() The Purchase Price shall be adjusted downward by the following ("Buyer's Credits"):

() the total collected sales value of all Hydrocarbons produced and sold by the Seller after the Effective Time, all of which are attributable to the Assets, and any other monies collected by the Seller with respect to the ownership or operation of the Assets after the Effective Time.

() the amount of all unpaid ad valorem, property, production, excise, severance and similar taxes and assessments (but not including income taxes), which taxes and assessments are outstanding or accrue to the Assets prior to the Effective Time, which amount shall, where possible, be computed based upon the tax rate and values applicable to the tax period in question; otherwise, the amount of the adjustment under this paragraph shall be computed based upon such taxes

assessed against the applicable portion of the Assets for the immediately preceding tax period just ended;

() an amount equal to the sum of any downward adjustments provided elsewhere in this Agreement, specifically including, but not limited to, any Environmental Defect Values or Title Defect Values, as determined, respectively, pursuant to the terms of Articles 7 and 8 below ;

(4) an amount equal to the sum of amounts held in suspense by Seller for the account of third parties (obligations for payment of which amounts to such third parties Buyer shall assume at Closing); and

(5) any other amount agreed upon by Seller and Buyer in writing prior to Closing.

() Seller shall prepare and deliver to Buyer, at least five "Business Days" prior to Closing, Seller's estimate of the adjusted Purchase Price to be paid at Closing, together with a preliminary statement setting forth Seller's estimate of the amount of each adjustment to the Purchase Price to be made pursuant to this Section 3.3. The Parties shall negotiate in good faith and attempt to agree on such estimated adjustments prior to Closing. In the event any estimated adjustment amounts are not agreed upon prior to Closing, the estimate of the adjusted Purchase Price for purposes of Closing shall be calculated based on Seller's and Buyer's agreed upon estimated adjustments and Seller's good faith estimate of any disputed amounts (and any such disputes shall be resolved by the parties in connection with the resolution of the Final Settlement Statement).

ARTICLE . – SELLERS' REPRESENTATIONS AND WARRANTIES

Sellers severally (not joint and severally) represent and warrant to Buyer as of the date hereof, and the Closing Date as follows:

() EnerQuest represents to Buyer that EnerQuest is a Texas limited partnership duly organized, validly existing and in good standing under the laws of the state of Texas; Dingus represents to Buyer that Dingus is a Texas corporation duly organized, validly existing and in good standing under the laws of the state of Texas; Crump represents to Buyer that Crump is a Texas limited partnership duly organized, validly existing and in good standing under the laws of the state of Texas; Lone Star represents to Buyer that Lone Star is a Texas corporation duly organized, validly existing and in good standing under the laws of the state of Texas; Kite represents to Buyer that Kite is an Oklahoma limited liability company duly organized, validly existing and in good standing under the laws of the state of Oklahoma; White Star represents to Buyer that White Star is an Oklahoma limited liability company duly organized, validly existing and in good standing under the laws of the state of Oklahoma; JHJ represents to Buyer that JHJ is a Texas limited liability company duly organized, validly existing and in good standing under the laws of the state of Texas; and MCH represents to Buyer that MCH is a Texas limited liability company duly organized, validly existing and in good standing under the laws of the state of Texas.

() Each Seller severally represents to Buyer that it has all requisite power and authority to own its interest in the Assets and to carry on its business as presently conducted, to enter into this Agreement and the other documents and agreements contemplated hereby, and to perform its obligations under this Agreement and the other documents and agreements contemplated hereby. The consummation of the transactions contemplated by this Agreement will not violate, nor be in conflict with, any provision of its governing documents or any agreement or instrument to which it is a party or by which it is bound (except any provision contained in agreements customary in the oil and gas industry relating to () the Preferential Purchase Rights (defined below) in all or any portion of the Assets; () required consents to transfer and related provisions; () maintenance of uniform interest provisions; and () any other third-party approvals or consents contemplated herein), or any judgment, decree, order, statute, rule, or regulation applicable to Seller.

() Each Seller severally represents to Buyer that this Agreement, and all documents and instruments required hereunder to be executed and delivered by such Seller at Closing, constitute legal, valid and binding obligations of such Seller in accordance with its respective terms, subject to applicable bankruptcy and other similar laws of general application with respect to creditors.

() Each Seller severally represents to Buyer that there are no bankruptcy, reorganization or receivership proceedings pending, being contemplated by, or to the actual knowledge of such Seller threatened against such Seller.

() Each Seller severally represents to Buyer that the execution, delivery and performance of this Agreement and the transaction contemplated hereunder have been duly and validly authorized by all requisite authorizing action, corporate, partnership or otherwise, on the part of such Seller.

(f) Each Seller severally represents to Buyer that it has not incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees in connection with this Agreement and the transaction provided herein provided for which Buyer shall have any responsibility.

(g) Each Seller severally represents to Buyer that to the knowledge of such Seller, there are no actions, suits, proceedings, or governmental investigations or inquiries pending or threatened against it or its interests in the Assets, in which any Person or authority seeks to delay or prevent the consummation of the transactions contemplated hereby, or which might, if determined adversely to such Seller, materially and adversely affect such Seller' s title to or the value of the Assets.

(h) Each Seller severally represents to Buyer that to the best of its knowledge, it has either discharged or caused to be discharged all taxes and assessments of every kind and character, as the same have become due prior to Closing, relating to its ownership of the Assets.

(i) Each Seller severally represents to Buyer that in those cases in which such Seller has acted as operator of any of the Assets, such Seller is not in default under any material contract, undertaking, or other commitment or agreement relating to the Assets, and to the best of such Seller' s knowledge, in those cases in which a third party is acting as operator of any of the Assets, that third party has operated those Assets in substantial compliance with all contracts, undertakings, or other commitments or agreements relating to those Assets.

(j) Each Seller severally represents to Buyer that to the best of its knowledge, it is in substantial compliance with all applicable federal, state, and local laws, rules, and regulations that affect or relate to the Assets.

(k) Each Seller severally represents to Buyer that to the extent that it has been required to do so that to be best of its knowledge, it has filed with appropriate state and federal agencies having jurisdiction over any part of the Assets all applications for well determinations as may be required under the Natural Gas Policy Act and the rules and regulations of the Federal Energy Regulatory Commission.

(l) Each Seller severally represents to Buyer that to the best of its knowledge, other than those matters reflected of record or in Seller' s files and records, all of which shall be made available to Buyer, the Assets are not subject to any unrecorded preferential rights to purchase, restrictions on assignment, joint venture agreements, operating agreements, oil and/or gas sales agreements, drilling or development obligations, reversionary interests, or other material burdens, restrictions, or limitations or other material contracts, agreements, or understandings of any kind whatsoever with respect to the ownership or operation of the Assets, or the disposition of production therefrom.

(m) Each Seller severally represents to Buyer that its interests in the Assets are not burdened by any mortgages, judgments, or security interests that will not be released at Closing. Further, Seller' s

execution of this Agreement will not result in the creation of any lien or encumbrance, or give to any third party any interest or right, including any right of termination or acceleration under any other agreement.

(n) There are no open authorizations for expenditure or oral or written commitments to drill or rework any well on the Assets.

(o) Each Seller severally represents to Buyer that the written information to be delivered by such Seller to Buyer that directly relates to the title to the Assets (including abstracts, title opinions, land records, and copies of instruments) is, to the best of such Seller' s knowledge, true and accurate in all material respects, and such information represents all of the information available in such Seller' s files.

(p) Each Seller severally represents to Buyer that to the best of its knowledge, neither this Agreement nor any information or other document to be delivered by such Seller to the Buyer, contains any false statement of a material fact or omits any material fact necessary to make such statements not misleading.

(q) Each Seller severally represents to Buyer that to the best of its knowledge, since the Effective Time, no material adverse change in the condition or operation of any Asset has occurred, except as may result from normal and usual changes in the ordinary course of business and operations.

ARTICLE . - BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to Seller as of the date hereof, and the Closing Date that:

() Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Nevada, and is duly qualified to carry on its business in those states where it is required to do so.

() Buyer has all requisite power and authority to carry on its business as presently conducted, to enter into this Agreement and the other documents and agreements contemplated hereby, and to perform it obligations under this Agreement and the other documents and agreements contemplated hereby. The consummation of the transactions contemplated by this Agreement will not violate or conflict with, any provision of Buyer's articles of incorporation, by-laws or other governing documents or any material agreement or instrument to which it is a party or by which it is bound, or any judgment, decree, order, statute, rule, or regulation applicable to Buyer.

() The execution, delivery and performance of this Agreement and the transactions contemplated hereunder have been duly and validly authorized by all requisite authorizing action, corporate or otherwise, on the part of Buyer.

() This Agreement, and all documents and instruments required hereunder to be executed and delivered by Buyer at Closing, constitute legal, valid and binding obligations of Buyer in accordance with their respective terms, subject to applicable bankruptcy and other similar laws of general application with respect to creditors.

() There are no bankruptcy, reorganization or receivership proceedings pending, being contemplated by, or to the actual knowledge of Buyer, threatened against Buyer.

() Buyer has not incurred any obligation or liability, contingent or otherwise, for brokers' or finders' fees in connection with this Agreement and the transaction provided herein for which Seller shall have any responsibility.

() Buyer is an experienced and knowledgeable investor and operator in the oil and gas business. Prior to entering into this Agreement, Buyer was advised by and has relied solely on its own expertise and

legal, tax, reservoir engineering, and other professional counsel concerning this Agreement, the Assets and the value thereof.

(h) Buyer has the financial resources to close the transaction contemplated by this Agreement, and if third party financing is a requirement for Buyer' s ability to close, Buyer has obtained such financing.

ARTICLE . - ACCESS TO INFORMATION AND INSPECTIONS

.. Title Files.

Promptly after the execution of this Agreement and until the Closing Date, Seller shall permit Buyer and its representatives at reasonable times during normal business hours to examine, in Seller's offices at their actual location, all abstracts of title, title opinions, title files, ownership maps, lease files, assignments, division orders, payout statements and agreements pertaining to the Assets as requested by Buyer, insofar as the same may now be in existence and in the possession of Seller. No warranty of any kind is made by Seller as to the information so supplied, and Buyer agrees that any conclusions drawn therefrom are the result of its own independent review and judgment.

.. Other Files.

Promptly after the execution of this Agreement and until the Closing Date, Seller shall permit Buyer and its representatives at reasonable times during normal business hours to examine, in Seller's offices at their actual location, all production, well, regulatory, engineering, seismic, geological, geophysical and geochemical information, accounting information and other information (specifically including, but not limited to, any and all accounting and regulatory information necessary for Buyer to conduct such audits of Seller' s records for the years 2002 and 2003 as may be required under regulations promulgated by the Securities Exchange Commission or any other regulatory authority having jurisdiction over the American Stock Exchange), files, books, records, and data pertaining to the Assets as requested by Buyer, insofar as the same may now be in existence and in the possession of Seller, excepting economic evaluations, reserve reports and any such information that is subject to the attorney/client and work product privileges. No warranty of any kind is made by Seller as to the information so supplied, and Buyer agrees that any conclusions drawn therefrom are the result of its own independent review and judgment.

.. Confidentiality Agreement.

All such information made available to Buyer shall be maintained confidential by Buyer until Closing. The information protected by such confidentiality obligation does not include any information that (i) at the time of disclosure is generally available to and known by the public (other than as a result of a disclosure by Buyer), or (ii) is or was available to Buyer on a nonconfidential basis. Buyer may disclose the information or portions thereof to those employees, agents or representatives of Buyer who need to know such information for the purpose of assisting Buyer in connection with its performance of this Agreement. Further, in the event that Buyer is requested or required (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process) to disclose any of the information, Buyer shall provide Seller with prompt written notice of such request or requirement, so that Seller may seek such protective order or other appropriate remedy as it may desire. Buyer shall further take whatever reasonable steps which may be necessary to ensure that Buyer's employees, consultants and agents comply with the provisions of this Section 6.3.

.. Inspections.

Promptly after the execution of this Agreement and until Closing, Seller, subject to any necessary third-party operator approval, shall permit Buyer and its representatives at reasonable times and at their sole risk, cost and expense, to conduct reasonable inspections of the Assets. **BUYER AGREES TO PROTECT,**

INDEMNIFY, DEFEND, RELEASE AND HOLD HARMLESS SELLER AND THEIR RESPECTIVE AFFILIATES, AND THEIR RESPECTIVE OFFICERS, EMPLOYEES, SHAREHOLDERS, PARTNERS AND OTHER EQUITY OWNERS AND REPRESENTATIVES, FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, EXPENSES, COSTS, CLAIMS, SUITS OR DAMAGES OF ANY NATURE IN CONNECTION WITH PERSONAL INJURIES, DEATH, OR PROPERTY DAMAGE ARISING OUT OF OR RELATING TO THE ACCESS OF BUYER, ITS OFFICERS, EMPLOYEES, AGENTS, CONTRACTORS, INVITEES AND REPRESENTATIVES TO THE ASSETS FROM THE DATE HEREOF TO THE CLOSING DATE, REGARDLESS OF WHETHER SUCH PERSONAL INJURIES, DEATH, OR PROPERTY DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE SOLE, PARTIAL, CONCURRENT OR OTHER NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT (EXCLUDING GROSS NEGLIGENCE OR WILLFUL MISCONDUCT) OF SELLER OR ANY AFFILIATE, OFFICER, EMPLOYEE, SHAREHOLDER, PARTNER, OTHER EQUITY OWNER OR REPRESENTATIVE OF ANY SELLER.

.. **No Warranty or Representation on Seller's Information.**

SELLER MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE ACCURACY, COMPLETENESS, OR MATERIALITY OF THE INFORMATION, RECORDS, AND DATA NOW, HERETOFORE, OR HEREAFTER MADE AVAILABLE TO BUYER IN CONNECTION WITH THE ASSETS OR THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, ANY DESCRIPTION OF THE ASSETS, QUALITY OR QUANTITY OF HYDROCARBON RESERVES, IF ANY, PRODUCTION RATES, RECOMPLETION OPPORTUNITIES, DECLINE RATES, ALLOWABLES OR OTHER REGULATORY MATTERS, POTENTIAL FOR PRODUCTION OF HYDROCARBONS FROM THE ASSETS, OR ANY OTHER MATTERS CONTAINED IN OR OMITTED FROM ANY OTHER MATERIAL FURNISHED TO BUYER BY SELLER. ANY AND ALL SUCH DATA, INFORMATION AND MATERIAL FURNISHED BY SELLER IS PROVIDED AS A CONVENIENCE ONLY AND ANY RELIANCE ON OR USE OF SAME IS AT BUYER'S SOLE RISK.

ARTICLE . - ENVIRONMENTAL MATTERS AND ADJUSTMENTS

.. Upon execution of and pursuant to the terms of this Agreement, Buyer shall have the right, at reasonable times during normal business hours, to conduct its investigation into the status of the physical and environmental condition of the Assets. If, in the course of conducting such investigation, Buyer discovers that any Asset is subject to a material Environmental Defect, Buyer may raise such Environmental Defect in the manner set forth hereafter. For purposes hereof, the term ‘‘material’’ shall mean that the cost of remediating any single defect exceeds $25,000, the parties agreeing that such amount will be a per Environmental Defect deductible rather than a threshold. No later than 5:00 p.m., Central Time, on April 30, 2004 (the ‘‘Environmental Defect Notice Date’’), Buyer shall notify Seller in writing specifying such Environmental Defects, if any, the Assets affected thereby, and Buyer's good faith detailed calculation of the net reduction in value of the Assets affected by such defects (the ‘‘Environmental Defect Value’’). Prior to Closing, Buyer and Seller shall treat all information regarding any environmental conditions as confidential, whether material or not, and shall not make any contact with any governmental authority or third party regarding same without the written consent of the other party unless required by law; provided, however, that Buyer and its representatives and agents shall have the right and authority to contact such governmental agencies as it deems appropriate during the course of Buyer’ s due diligence for the purpose of determining whether Seller has complied with the rules and regulations of such agencies during its ownership and/or operation of the Assets.

.. If Buyer fails to notify Seller prior to or on the Environmental Defect Notice Date, of any Environmental Defects, all such defects will be deemed waived by Buyer.

.. In the event that Buyer provides Seller with an Environmental Defect Notice, Seller, at its sole option, shall with respect to each such Environmental Defect (i) agree to cure or remediate such

Environmental Defect within a reasonable time after Closing, (ii) reduce the Purchase Price by the amount of the mutually agreed upon Environmental Defect Value of such Environmental Defect, less the deductible, or (iii) provide Buyer with indemnification in form and substance reasonably satisfactory to Buyer for any damages, claims or expenses arising from such Environmental Defect.

ARTICLE . - TITLE DEFECTS AND ADJUSTMENTS

.. Definitions.

For purposes hereof, the terms set forth below shall have the meanings assigned thereto.

() "Allocated Value" shall have the meaning set forth in Section 1.2 hereof.

() "Defensible Title", subject to and except for the Permitted Encumbrances (as hereinafter defined), means as to the Assets, such title held by Seller and reflected by appropriate documentation properly filed in the official records of the jurisdiction in which the Assets are located or having authority over any portion of the Assets that (a) entitles Seller and will entitle Buyer, after Closing, to own and receive and retain, without suspension, reduction or termination, payment of revenues for not less than the net revenue interest shown on Exhibit B (the "NRI") of all oil and gas produced, saved and marketed from or attributable to the well or unit indicated through the plugging, abandonment and salvage of such wells or units; (b) obligates Seller, and will obligate Buyer after Closing, to bear the costs and expenses relating to the maintenance, development and operation of such well or unit through the plugging, abandonment and salvage of such wells in an amount not greater than the expense interest of Seller set forth in Exhibit B (unless Seller's net revenue interest therein is proportionately increased); and (c) the Assets are free and clear of any liens, burdens or encumbrances of any kind or character.

(c) "Title Defect" shall mean any matter which causes Seller to have less than Defensible Title to any of the Assets as of the Closing Date.

(d) "Title Defect Property" shall mean any Lease or portion thereof burdened by a Title Defect.

(e) "Title Defect Value" shall mean the value of a Title Defect as determined pursuant to Section 8.4 hereof.

(f) "Permitted Encumbrances" shall mean any of the following matters:

(i) defects in the chain of title prior to January 1, 1980, consisting of the failure to recite marital status or the omission of succession or heirship proceedings;

(ii) defects or irregularities arising out of prior oil and gas leases which, on their face, expired more than ten (10) years prior to the Effective Time, and which have not been released of record;

(iii) tax liens and mechanic's liens for amounts not yet due and payable, or those that are being contested in good faith by Seller in the ordinary course of business;

(iv) to the extent any of the following do not materially diminish the value of, or impair the conduct of operations on, any of the Assets and do not impair Seller's right to receive the revenues attributable thereto: (x) easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations, pipelines, grazing, hunting, fishing, logging, canals, ditches, reservoirs or the like, and (y) easements for streets, alleys, highways, pipelines, telephone lines, power lines, railways and other similar rights-of-way, on, over or in respect of property owned or leased by Seller or over which Seller owns rights of way, easements, permits or licenses;

(v) all lessors' royalties, overriding royalties, net profits interests, carried interest, production payments, reversionary interests and other burdens on or deductions from the proceeds of production if the net cumulative effect of such burdens or deductions does not reduce the net revenue interest of Seller in any well or unit affected thereby as reflected in Exhibit B or impair the right to receive revenues attributable thereto;

(vi) preferential rights to purchase and required third party consents to assignments and similar agreements with respect to which waivers or consents are obtained from the appropriate parties, or the appropriate time periods for asserting the rights have expired without an exercise of the rights prior to the Closing Date;

(vii) all rights to consent by, required notices to, filings with, or other actions by governmental entities and tribal authorities in connection with the sale or conveyance of oil and gas leases or interests if they are customarily obtained subsequent to the sale or conveyance;

(viii) defects or irregularities of title arising out of events or transactions which have been barred by limitations;

(ix) any defect, irregularity, encumbrance or other matter having an aggregate adverse effect on the value of the Assets of less than $25,000, the parties agreeing that such amount will be a per Title Defect deductible rather than a threshold;

(x) any encumbrance or other matter (whether or not constituting a "Title Defect") expressly waived in writing by Buyer;

(xi) any other liens, charges, encumbrances, contracts, agreements, instruments, obligations, defects and irregularities affecting the Assets which taken individually or together do not interfere materially with the operation, value or use of any of the Assets, do not prevent Seller from receiving the proceeds of production from any of the Assets, do not adversely affect the interest of Seller with respect to any oil and gas produced from any of the Assets, do not increase the portion of the costs and expenses relating to any of the Assets that Seller is obligated to pay above that which it is currently paying;

(xii) any encumbrance on or affecting the Assets which is to be released at Closing pursuant to Section 13.2 hereof; and

(xiii) that certain Farming and Grazing Lease dated effective April 1, 2001 between EnerQuest, as Landlord, and Lee Roberson and Roberson Farms, LLC, as Tenant, covering a portion of the Surface Interest.

Notice of.Title Defects.

at its sole cost and expense, but without obligation, to cure all or any portion of such Title Defects. Buyer's failure to deliver to Seller such notice on or before the Title Defect Notice Date shall be deemed a waiver by Buyer of all Title Defects that Seller does not receive notice of on or before such date. Any defect or deficiency concerning Seller' s title to the Assets not asserted by Buyer prior to the Title Defect Notice Date shall be deemed waived by Buyer for all purposes.

8.3. Title Defect Adjustment.

In the event Buyer provides Seller with a Title Defect Notice as provided in Section 8.2 above, Seller, at its sole option, shall with respect to each such Title Defect (i) agree to cure such Title Defect within sixty (60) days after Closing ("Cure Period"), (ii) reduce the Purchase Price by the Title Defect Value agreed upon by Seller and Buyer with respect to such Title Defect, less the deductible, or (iii) provide Buyer with

indemnification against any damages, claims or expenses that may arise out of such Title Defect. If Seller elects to attempt to cure a Title Defect after Closing, Closing with respect to the portion of the Assets affected by such Title Defect will be deferred (the "Closing Deferred Property"). Closing with respect to all other Assets will proceed as provided in this Agreement, but the Purchase Price delivered to Sellers at such initial Closing will be reduced by the Allocated Value of all Closing Deferred Properties. If Sellers cure any Title Defect within the Cure Period, then the Closing with respect to the Closing Deferred Property for which such Title Defect has been cured will proceed and will be finalized within seven (7) days following the end of the Cure Period. If Seller fails or refuses to cure any Title Defect prior to the expiration of the Cure Period, Buyer may separately elect, by notice to Seller delivered within seven (7) days after receipt by Buyer of Notice from Seller of such failure or refusal to cure any such Title Defect, to waive all of the Title Defects applicable to any Closing Deferred Property (which waived Title Defects shall be deemed Permitted Encumbrances) and proceed to Closing on such Closing Deferred Property. If Buyer does not elect to waive an existing Title Defect, Seller shall retain the Closing Deferred Property, and the Parties shall have no further obligation with respect thereto. In the event that any such Asset is retained by Seller and such Asset has been receiving revenue, without complaint, for a period in excess of two years, then Buyer agrees (i) not to take any action to interfere with such revenue stream, and (ii) to the extent that Buyer becomes payor of such revenue, to pay Seller such revenue upon receipt of an indemnity agreement from Seller.

.4. Title Defect Values.

In determining the value of a Title Defect, it is the intent of the Parties to include, to the extent possible, only that portion of the Assets, whether an undivided interest, separate interest or otherwise, materially and adversely affected by the defect. The Title Defect Value shall in no event exceed the Allocated Value of the affected Asset. Subject to such limitation, the Title Defect Value shall be determined by the Parties in good faith taking into account all relevant factors, including, but not limited to, the following:

() the Allocated Value of the Assets affected by the Title Defect;

() the reduction in the warranted NRI of the Title Defect Property, or the amount by which the cost sharing percentage for such property is greater than the warranted WI;

() the productive status of the Title Defect Property (i.e., proved developed producing, etc.) and the present value of the future income expected to be produced therefrom;

() if the Title Defect represents only a possibility of title failure, the probability that such failure will occur;

() the legal effect of the Title Defect; and

() if the Title Defect is a lien or encumbrance on the leases, lands or wells, the cost of removing such lien or encumbrance.

Notwithstanding anything to the contrary that may be contained in this Article VIII, Buyer understands and agrees that the Allocated Values set forth in Exhibit B are for currently producing zones and that any loss of depth rights or acreage will not have a Title Defect Value unless such loss causes a decrease in expense or net revenue interest in the currently producing zone.

.5. Title Warranty.

EACH SELLER SHALL CONVEY ITS INTERESTS IN AND TO THE ASSETS TO BUYER SUBJECT TO ALL ROYALTIES, OVERRIDING ROYALTIES, BURDENS, AND ENCUMBRANCES, WITH WARRANTY OF TITLE BY, THROUGH, AND UNDER SUCH SELLER, BUT NOT OTHERWISE, AS PROVIDED IN THE FORM OF CONVEYANCE, ASSIGNMENT AND BILL OF SALE ATTACHED AS EXHIBIT C HERETO AND IN THE SPECIAL WARRANTY DEED TO BE DELIVERED AT CLOSING. IMBALANCES WITH RESPECT

TO OIL OR NATURAL GAS ARE GOVERNED BY ARTICLE 18 HEREOF. THE PARTIES AGREE THAT THE EXISTENCE OF ANY SUCH IMBALANCES SHALL NOT BE DEEMED A TITLE DEFECT.

ARTICLE . - OPTION TO TERMINATE

If the aggregate of the values attributable to all Title Defects determined pursuant to Article 8 plus the values attributable to all Environmental Defects determined pursuant to Article 7 shall exceed $123,250, either Buyer or Seller may, at its sole option, terminate this Agreement prior to or at Closing without any further obligation by giving written notice of termination. In the event of such termination, Seller shall return the Performance Deposit to Buyer, without interest, within five (5) days of receipt of the notice of termination and neither Party shall have any further obligation or liability hereunder.

ARTICLE 10. - PREFERENTIAL PURCHASE RIGHTS AND CONSENTS

10.1. Actions and Consents.

() Seller and Buyer agree that each shall use all reasonable efforts to take or cause to be taken all such action as may be necessary to consummate and make effective the transaction provided in this Agreement and to assure that it will not be under any material corporate, legal, or contractual restriction that could prohibit or delay the timely consummation of such transaction.

() Seller shall notify all holders of () preferential rights to purchase the Assets (“Preferential Purchase Rights”), () rights of consent to the assignment, or () rights of approval to the assignment of the Assets, and of such terms and conditions of this Agreement to which the holders of such rights are entitled. Seller shall promptly notify Buyer if any Preferential Purchase Rights are exercised, any consents or approvals denied, or if the requisite period has elapsed without said rights having been exercised or consents or approvals having been received. If prior to Closing, any such Preferential Purchase Rights are timely and properly exercised, or Seller is unable to obtain a necessary consent or approval prior to Closing, the interest or part thereof so affected shall be eliminated from the Assets and the Purchase Price reduced by the portion of the Purchase Price allocated to such interest or part thereof as provided in Exhibit B. If any additional Preferential Purchase Rights are discovered after Closing, or if a third party Preferential Purchase Rights holder alleges improper notice, then Buyer agrees to cooperate with Seller in giving effect to any such valid third party Preferential Purchase Rights. In the event any such valid third party preferential purchase rights are validly exercised after Closing, Buyer's sole remedy against Seller shall be return by Seller to Buyer of that portion of the Purchase Price allocated under Exhibit B to the portion of the Assets on which such rights are exercised and lost by Buyer to such third party. The Parties agree that the determination of the Allocated Values for Assets subject to Preferential Purchase Rights shall be the sole prerogative of Buyer, and Buyer agrees to indemnify and hold Seller harmless from all liability and claims related to the reasonableness of such values.

(c) With respect to any portion of the Assets for which a Preferential Purchase Right has not been asserted prior to Closing or a consent or other approval to assign has not been granted and for which the time for election to exercise such Preferential Purchase Right or to grant such consent has not expired, Closing with respect to the portion of the Assets subject to such outstanding obligations will be deferred (the “Third Party Interests”). Closing with respect to all other Assets will proceed as provided in this Agreement, but the Purchase Price delivered to Seller at Closing will be reduced by the Allocated Value of the Third Party Interests. In the event that within ninety (90) days after Closing any such Preferential Purchase Right is waived or consent or approval is obtained or the time for election to purchase or to deliver a consent or approval passes (such that under the applicable documents, Seller may sell the affected Third Party Interest to Buyer), then the Closing with respect to the applicable portion of the Third Party Interests will proceed promptly. If such waivers, consents or approvals as are necessary are not received by Seller within the

applicable ninety (90) day period, Seller shall retain such Third Party Interests, and the Parties shall have no further obligation to each other with respect thereto.

ARTICLE 11. - COVENANTS OF SELLER

11.1. Covenants of Seller Pending Closing.

() From and after the date of execution of this Agreement and until the Closing, and subject to Section 11.2 and the constraints of applicable operating and other agreements, Seller shall operate, manage, and administer the Assets in a good and workmanlike manner consistent with its past practices, and shall carry on its business with respect to the Assets in substantially the same manner as before execution of this Agreement. Seller shall use all reasonable efforts to preserve in full force and effect all Leases, operating agreements, easements, rights-of-way, permits, licenses, and agreements which relate to the Assets in which Seller owns an interest, and shall perform all obligations of Seller in or under all such agreements relating to the Assets; provided, however, Buyer's sole remedy for Seller's breach of its obligations under this Section 11.1(a) shall be limited to the amount of that portion of the Purchase Price allocated in Exhibit B to that portion of the Assets affected by such breach. Seller shall, except for emergency action taken in the face of serious risk to life, property, or the environment () submit to Buyer, for prior written approval, all requests for operating or capital expenditures and all proposed contracts and agreements relating to the Assets which involve individual commitments of more than $25,000; () consult with, inform, and advise Buyer regarding all material matters concerning the operation, management, and administration of the Assets; () obtain Buyer's written approval prior to voting under any operating, unit, joint venture, partnership or similar agreement; and () not approve or elect to go nonconsent as to any proposed well or plug and abandon or agree to plug and abandon any well without Buyer's prior written approval. On any matter requiring Buyer's approval under this Section 11.1(a), Buyer shall respond within five (5) days to Seller's request for approval and failure of Buyer to respond to Seller's request for approval within such time shall release Seller from the obligation to obtain Buyer's approval before proceeding on such matter.

() Seller shall promptly notify Buyer of any suit, lessor demand action, or other proceeding before any court, arbitrator, or governmental agency and any cause of action which relates to the Assets or which might result in impairment or loss of Seller's interest in any portion of the Assets or which might hinder or impede the operation of the Assets.

11.2. Limitations on Seller's Covenants Pending Closing.

To the extent Seller is not the operator of any of the Assets, the obligations of Seller in Section 11.1 concerning operations or activities which normally or pursuant to existing contracts are carried out or performed by the operator, shall be construed to require only that Seller use all reasonable efforts (without being obligated to incur any expense or institute any cause of action) to cause the operator of such Assets to take such actions or render such performance within the constraints of the applicable operating agreements and other applicable agreements.

11.3. Seller's Assistance in Transfer of Operations. Subject to Section 19.21 of this Agreement, Seller agrees that prior to Closing, it shall use reasonable efforts, without the expenditure of any money, to assist Buyer in obtaining the execution of the necessary agreements by one or more parties retaining all or some portion of their working interest in the Assets in order to ensure that Buyer will be duly elected as Operator of the East Hobbs (San Andres) Unit following the Closing, in keeping with the terms of Section 4.3.2 of the Unit Agreement creating that Unit.

ARTICLE 12. - CLOSING CONDITIONS

12.1. Seller's Closing Conditions.

The obligations of Seller under this Agreement are subject, at the option of Seller, to the satisfaction, at or prior to the Closing, of the following conditions:

() all representations and warranties of Buyer contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing, and Buyer shall have performed and satisfied all agreements required by this Agreement to be performed and satisfied by Buyer at or prior to the Closing;

() the execution, delivery, and performance of this Agreement and the transactions contemplated thereby have been duly and validly authorized by all necessary action, corporate, partnership or otherwise, on the part of Buyer;

() all necessary consents of and filings with any state or federal governmental authority or agency relating to the consummation of the transactions contemplated by this Agreement shall have been obtained, accomplished or waived, except to the extent that such consents and filings are normally obtained, accomplished or waived after Closing; and

() as of the Closing Date, no suit, action or other proceeding (excluding any such matter initiated by Seller) shall be pending or threatened before any court or governmental agency seeking to restrain Seller or prohibit the Closing or seeking damages against Seller as a result of the consummation of this Agreement.

12.2. Buyer's Closing Conditions.

The obligations of Buyer under this Agreement are subject, at the option of Buyer, to the satisfaction, at or prior to the Closing, of the following conditions:

() all representations and warranties of Seller contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing, and Seller shall have performed and satisfied all agreements required by this Agreement to be performed and satisfied by Seller at or prior to the Closing;

() the execution, delivery, and performance of this Agreement and the transactions contemplated thereby have been duly and validly authorized by all necessary action, corporate, partnership or otherwise, on the part of Seller;

() all necessary consents of and filings with any state or federal governmental authority or agency relating to the consummation of the transactions contemplated by this Agreement shall have been obtained, accomplished or waived, except to the extent that such consents and filings are normally obtained, accomplished or waived after Closing;

() as of the Closing Date, no suit, action or other proceeding (excluding any such matter initiated by Buyer) shall be pending or threatened before any court or governmental agency seeking to restrain Buyer or prohibit the Closing or seeking damages against Buyer as a result of the consummation of this Agreement.

ARTICLE 13. - CLOSING

13.1. Closing.

The closing of this transaction (the "Closing") shall be held at the offices of Seller at 10.00 a.m., local time, on May 7, 2004 or at such earlier date or place as the Parties may agree in writing (herein called "Closing Date"). At the request of either Party, the Closing Date may be moved for a period of one week, until May 14, 2004. Time is of the essence and the Closing Date shall not be extended unless by written

agreement of the Parties. On or before five (5) business days prior to Closing, Buyer and Seller shall use their best efforts to provide each other copies of all closing documents.

13.2. Seller's Closing Obligations.

At Closing Seller shall deliver to Buyer the following:

() the Conveyance, Assignment and Bill of Sale substantially in the form attached hereto as Exhibit C (the "Conveyance") and such other documents as may be reasonably necessary to convey all of Seller's interest in the Assets to Buyer in accordance with the provisions hereof (such other documents to include, but not be limited to, such forms as are required by any state or federal agency for purposes of evidencing the transfer of record title or operating rights in that agency's records);

(b) a Special Warranty Deed executed by EnerQuest conveying to Buyer the Surface Interest (the "Special Warranty Deed");

(c) a Non-foreign Affidavit executed by each Seller in the form attached as Exhibit D;

(d) appropriate regulatory forms appointing Buyer as the operator for those Assets which Seller or its affiliates operate;

(e) copies of all third-party waivers, consents, approvals, permits and actions obtained; and

(f) exclusive possession of the Assets;

(g) letters-in-lieu of transfer orders in form acceptable to Seller and Buyer; and

(h) releases of all mortgage liens, security interests and financing statements burdening the Assets in form and substance reasonably satisfactory to Buyer.

13.3. Buyer's Closing Obligations.

At Closing, Buyer shall deliver to Seller the following:

(a) by wire transfer in immediately available funds to an Account designated by Seller, the Purchase Price (less the Performance Deposit) as adjusted by Section 3.3;

(b) an executed Conveyance and Special Warranty Deed evidencing Buyer's acceptance thereof;

(c) evidence sufficient to show that Buyer has bonds sufficient to cover the operation of the Assets as required by applicable regulatory authorities; and

(d) such other documents and instruments as shall be reasonably requested by Seller and its counsel to effect the intent of this Agreement and consummate the transaction contemplated hereby.

13.4. Joint Closing Obligations.

Both Parties at Closing shall execute a Settlement Statement evidencing the amount actually wire transferred and all adjustments to the Purchase Price taken into account at Closing. All events of Closing shall each be deemed to have occurred simultaneously with the other, regardless of when actually occurring, and each shall be a condition precedent to the other.

ARTICLE 14. - LIMITATIONS ON WARRANTIES AND REMEDIES

THE EXPRESS REPRESENTATIONS AND WARRANTIES OF SELLER CONTAINED IN THIS AGREEMENT ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, WITHOUT LIMITATION, ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE QUALITY, QUANTITY OR VOLUME OF THE RESERVES, IF ANY, OF OIL, GAS OR OTHER HYDROCARBONS IN OR UNDER THE LEASES, OR THE ENVIRONMENTAL CONDITION OF THE ASSETS. THE ITEMS OF PERSONAL PROPERTY, EQUIPMENT, IMPROVEMENTS, FIXTURES AND APPURTENANCES CONVEYED AS PART OF THE ASSETS ARE SOLD HEREUNDER "AS IS, WHERE IS, AND WITH ALL FAULTS" AND NO WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF QUALITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONDITION, ARE GIVEN BY OR ON BEHALF OF SELLER. IT IS UNDERSTOOD AND AGREED THAT PRIOR TO CLOSING BUYER SHALL HAVE INSPECTED THE ASSETS FOR ALL PURPOSES AND HAS SATISFIED ITSELF AS TO THEIR PHYSICAL CONDITION, BOTH SURFACE AND SUBSURFACE, AND THAT BUYER ACCEPTS SAME IN ITS "AS IS, WHERE IS AND WITH ALL FAULTS" CONDITION. THE WARRANTIES OF SELLER CONTAINED IN THIS AGREEMENT ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, AND BUYER HEREBY WAIVES ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONDITION, OR CONFORMITY TO SAMPLES.

ARTICLE 15. - CASUALTY LOSS AND CONDEMNATION

If, prior to the Closing, all or any portion of the Assets is destroyed by fire or other casualty or if any portion of the Assets shall be taken by condemnation or under the right of eminent domain (all of which are herein called "Casualty Loss" and limited to property damage or taking only), Buyer and Seller must agree prior to Closing either () to delete that portion of the Assets which is subject to the Casualty Loss from the Assets, and the Purchase Price shall be reduced by the value allocated to the deleted interest as set out in Exhibit B, or () for Buyer to proceed with the purchase of such Assets, notwithstanding any such destruction or taking (without reduction of the Purchase Price) in which case Seller shall pay, at the Closing, to Buyer all sums paid to Seller by third parties by reason of the destruction or taking of such Assets and shall assign, transfer and set over unto Buyer all insurance proceeds received by Seller as well as all of the right, title and interest of Seller in and to any claims, causes of action, unpaid proceeds or other payments from third parties arising out of such destruction or taking; provided, however, if the value of that portion of the Assets affected by the Casualty Loss, not to exceed that allocated in Exhibit B, exceeds $123,250, Buyer and Seller shall each have the right to terminate this Agreement upon written notification to the other, the transaction shall not close, the Performance Deposit shall be refunded to Buyer, and thereafter neither Buyer nor Seller shall have any liability or further obligations to the other hereunder. Prior to Closing, Seller shall not voluntarily compromise, settle or adjust any amounts payable by reason of any Casualty Loss without first obtaining the written consent of Buyer.

ARTICLE 16. - DEFAULT AND REMEDIES

16.1. Seller's Remedies.

Upon failure of Buyer to comply herewith by the Closing Date, as it may be extended in accordance herewith, Seller, at its sole option and in addition to any other remedies it may have at law or in equity, may (i) enforce specific performance of this Agreement, or (ii) terminate this Agreement and retain the Performance Deposit as liquidated damages. Notwithstanding any provision hereof to the contrary Seller may exercise the above remedies only in the event the transaction contemplated by this Agreement is terminated due solely

to the breach hereof by Buyer in the absence of any material breach hereof by Seller. If the transaction contemplated by this Agreement fails to close or is terminated for any other reason, the Performance Deposit shall be returned to Buyer.

16.2. Buyer's Remedies.

Upon failure of Seller to comply herewith by the Closing Date, as it may be extended in accordance herewith, Buyer, at its sole option and in addition to any other remedies it may have at law or equity, may () enforce specific performance, or () terminate this Agreement. In the event Buyer elects to terminate this Agreement as set forth above, Seller shall immediately return the Performance Deposit to Buyer.

16.3. Other Remedies.

Notwithstanding the foregoing, termination of this Agreement shall not prejudice or impair Buyer's obligations under Section 6.3 (and the confidentiality agreements referenced therein). The prevailing party in any legal proceeding brought under or to enforce this Agreement shall be additionally entitled to recover court costs and reasonable attorneys' fees from the non-prevailing party.

16.4. Effect of Termination.

In the event of termination of this Agreement under this Article 16, the transaction shall not close and neither Buyer nor Seller shall have any further obligations, remedies, liabilities, rights or duties to the other hereunder, except as expressly provided herein.

ARTICLE 17. - ASSUMPTION AND INDEMNITY

17.1. Assumed Obligations; Pre-Closing Liabilities.

Upon and after Closing Buyer shall own the Assets, together with all the rights, duties, obligations, and liabilities accruing after Closing, including the Assumed Obligations and Buyer's indemnity obligations hereunder. Buyer agrees to assume and pay, perform, fulfill and discharge all Assumed Obligations. Seller agrees to retain and pay, perform, fulfill and discharge all Retained Obligations.

17.2. Buyer's Indemnity.

Except as otherwise specifically provided herein, Buyer agrees to indemnify, defend and hold Seller harmless from and against any and all claims, demands, losses, damages, punitive damages, costs, expenses, causes of action or judgments of any kind or character including, without limitation, any interest, penalty, reasonable attorneys' fees and other costs and expenses incurred in connection therewith or the defense thereof (collectively the "Claims"), with respect to all liabilities and obligations or alleged or threatened liabilities and obligations caused by, related to, attributable to, or arising out of the Assumed Obligations.

17.3. Seller's Indemnity.

Except as otherwise specifically provided herein, Seller agrees to indemnify, defend and hold Buyer harmless from and against any and all Claims with respect to all liabilities and obligations or alleged or threatened liabilities and obligations caused by, related to, attributable to, or arising out of the Retained Obligations, specifically including, but not limited to, any Environmental Obligations or Liabilities arising from events that occurred prior to the Effective Time.

17.4. Negligence. THE INDEMNIFICATION, RELEASE AND ASSUMPTION PROVISIONS PROVIDED FOR IN THIS AGREEMENT SHALL BE APPLICABLE WHETHER OR NOT THE LOSSES, COSTS, EXPENSES AND DAMAGES IN QUESTION AROSE SOLELY OR IN PART FROM THE ACTIVE,

PASSIVE, COMPARATIVE, OR CONCURRENT NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT OF THE PARTIES HERETO.

17.5. Broker or Finder's Fee. Each party hereby agrees to indemnify and hold the other harmless from and against any claim for a brokerage or finder's fee or commission in connection with this Agreement or the transactions contemplated by this Agreement to the extent such claim arises from or is attributable to the actions of such indemnifying party, including, without limitation, any and all losses, damages, punitive damages, attorneys' fees, costs and expenses of any kind or character arising out of or incurred in connection with any such claim or defending against the same.

ARTICLE 18. - GAS IMBALANCES

Seller represents that the information found on Exhibit E reflects the most recent information available in Seller' s records as to the existence of any gas imbalances. Seller and Buyer will use their best efforts to update (to the Effective Time) the gas imbalance volume amounts listed on Exhibit E. If, prior to the Final Settlement Date, either party hereto notifies the other party hereto that the volumes set forth in Exhibit E are incorrect, then Buyer or Seller will pay the other at the Final Settlement, as appropriate, an amount equal to $2.50 per net mmbtu variance from the net imbalance shown on Exhibit E. Subject to such adjustment on the Final Settlement Date, as of the Closing Buyer agrees to assume any liability and obligation for gas production imbalances (whether over or under) attributable to the Assets. Except as set forth in this Article 18, in assuming this liability at Closing, Buyer shall not be obligated to make any additional payment over the Purchase Price to Seller, and Seller shall not be obligated to refund any of said price to reimburse Buyer for any over-balances existing at the time of sale.

ARTICLE 19. - MISCELLANEOUS

19.1. Public Announcements.

Seller acknowledges that Buyer, as a company the shares of which are subject to public trading on the American Stock Exchange, is obligated to fulfill certain obligations with respect to those public announcements that are required under the rules and regulations of the Securities Exchange Commission. To the extent that such announcements are required of Buyer as a matter of regulation, Seller agrees that Buyer, acting in its sole and absolute discretion, may make such announcements. Otherwise, the Parties hereto agree that prior to Closing, prior to making any other public announcement or statement with respect to the transaction contemplated by this Agreement, the Party desiring to make such public announcement or statement shall consult with the other Party hereto and exercise its best efforts to () agree upon the text of a joint public announcement or statement to be made by both of such Parties; or () obtain written approval of the other Party hereto to the text of a public announcement or statement to be made solely by Seller or Buyer, as the case may be. Nothing contained in this paragraph shall be construed to require either Party to obtain approval of the other Party hereto to disclose information with respect to the transaction contemplated by this Agreement to any state or federal governmental authority or agency to the extent (i) required by applicable law or by any applicable rules, regulations or orders of any governmental authority or agency having jurisdiction; or (ii) necessary to comply with disclosure requirements of the American Stock Exchange, the New York Stock Exchange or other recognized exchange or over the counter, and applicable securities laws.

19.2. Filing and Recording of Assignments, etc.

Buyer shall be solely responsible for all filings and recording of assignments and other documents related to the Assets and for all fees connected therewith, and Buyer shall furnish copies of all such filed and/ or recorded documents to Seller. Seller shall not be responsible for any loss to Buyer because of Buyer's failure to file or record documents correctly or promptly. Buyer shall promptly file all appropriate forms,

declarations or bonds with federal and state agencies relative to its assumption of operations and Seller shall cooperate with Buyer in connection with such filings.

19.3. Further Assurances and Records.

() After the Closing each of the parties will execute, acknowledge and deliver to the other such further instruments, and take such other action, as may be reasonably requested in order to more effectively assure to said party all of the respective properties, rights, titles, interests, estates, and privileges intended to be assigned, delivered or inuring to the benefit of such party in consummation of the transactions contemplated hereby.

() Buyer agrees to maintain the files and records of Seller that are acquired pursuant to this Agreement for seven (7) years after Closing. Buyer shall provide Seller and its representatives reasonable access to and the right to copy such files and records for the purposes of () preparing and delivering any accounting provided for under this Agreement and adjusting, prorating and settling the charges and credits provided for in this Agreement; () complying with any law, rule or regulation affecting Seller's interest in the Assets prior to the Closing Date; () preparing any audit of the books and records of any third party relating to Seller's interest in the Assets prior to the Closing Date, or responding to any audit prepared by such third parties; () preparing tax returns; () responding to or disputing any tax audit; or () asserting, defending or otherwise dealing with any claim or dispute under this Agreement.

() Buyer agrees that within thirty (30) days after Closing or within thirty (30) days after operations are actually transferred, whichever is later, it will remove or cause to be removed the names and marks used by Seller or its affiliates and all variations and derivatives thereof and logos relating thereto from the Assets and will not thereafter make any use whatsoever of such names, marks and logos.

() To the extent not obtained or satisfied as of Closing, Seller agrees to continue to use all reasonable efforts, but without any obligation to incur any cost or expense in connection therewith, and to cooperate with Buyer's efforts to obtain for Buyer () access to files, records and data relating to the Assets in the possession of third parties; and () access to wells constituting a part of the Assets operated by third parties for purposes of inspecting same.

() Buyer shall comply with all current and subsequently amended applicable laws, ordinances, rules, and regulations applicable to the Assets and shall promptly obtain and maintain all permits required by governmental authorities in connection with the Assets.

19.4. Notices.

Except as otherwise expressly provided herein, all communications required or permitted under this Agreement shall be in writing and any communication or delivery hereunder shall be deemed to have been duly given and received when actually delivered to the address of the parties to be notified as set forth below and addressed as follows:

If to Seller, as follows:

EnerQuest Oil & Gas, Ltd.
303 W. Wall, Suite 1400
Midland, Texas 79701
Attention: Robert W. Floyd
FAX: (432) 687-4804

If to Buyer:

Arena Resources Inc.
4920 South Lewis, Suite 107
Tulsa, Oklahoma 74105
Attention: Stan McCabe
FAX: (918) 747 - 7620

Provided, however, that any notice required or permitted under this Agreement will be effective if given verbally within the time provided, so long as such verbal notice is followed by written notice thereof in the manner provided herein within twenty-four (24) hours following the end of such time period. Any party may, by written notice so delivered to the other, change the address to which delivery shall thereafter be made.

19.6. Incidental Expenses.

Buyer shall bear and pay () all state or local government sales, transfer, gross proceeds, or similar taxes incident to or caused by the transfer of the Assets to Buyer, () all documentary, transfer and other state and local government taxes incident to the transfer of the Assets to Buyer; and () all filing, recording or registration fees for any assignment or conveyance delivered hereunder. Each party shall bear its own respective expenses incurred in connection with the negotiation and Closing of this transaction, including it own consultants' fees, attorneys' fees, accountants' fees, and other similar costs and expenses.

19.7. Waiver.

Any of the terms, provisions, covenants, representations, warranties or conditions hereof may be waived only by a written instrument executed by the Party waiving compliance. Except as otherwise expressly provided in this Agreement, the failure of any Party at any time or times to require performance of any provision hereof shall in no manner affect such Party's right to enforce the same. No waiver by any Party of any condition, or of the breach of any term, provision, covenant, representation or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition or of the breach of any other term, provision, covenant, representation or warranty.

19.8. Binding Effect; Assignment.

All the terms, provisions, covenants, obligations, indemnities, representations, warranties and conditions of this Agreement shall be enforceable by the Parties hereto and their respective successors and assigns. Except as provided in Section 19.12, the rights of each Party under this Agreement are personal to that Party and may not be assigned or transferred to any other party, firm, corporation or other entity, without the prior, express and written consent of the other Party, and such consent may be withheld for any reason, including convenience. Any attempt to assign this Agreement over the objection or without the express written consent of the other Party shall be absolutely void. Seller may condition its consent to assign this Agreement on Buyer providing Seller with an appropriate guarantee of its assignee' s performance. In the event Buyer sells or assigns all or a portion of the Assets, this Agreement shall remain in effect between Buyer and Seller as to all the Assets regardless of such assignment.

19.9. Taxes.

() Seller shall be responsible for and shall pay all taxes attributable to or arising from the ownership or operation of the Assets prior to the Effective Time. Buyer shall be responsible for and shall pay all taxes attributable to or arising from the ownership or operation of the Assets after the Effective Time. Any party which pays such taxes for the other party shall be entitled to prompt reimbursement upon evidence of such payment. Each party shall be responsible for its own federal income taxes, if any, as may result from this transaction.

(b)

If this transaction is determined to result in state sales or transfer taxes, Buyer shall be solely responsible for any and all such taxes due on the Assets acquired by Buyer by virtue of this transaction. If Buyer is assessed such taxes, Buyer shall promptly remit same to the taxing authority. If Seller is assessed such taxes, Buyer shall reimburse Seller for any such taxes paid by Seller to the taxing authority.

19.10. Confidentiality of Agreement.

This Agreement and the terms and provisions thereof, including the Purchase Price, shall be maintained confidential by Buyer and Seller until Closing; provided, however, that this Agreement and the terms and provisions thereof may be disclosed to Buyer's or Seller's lenders, if any, and their representatives and consultants, who shall be required to keep such information confidential, may be disclosed as necessary to parties having Preferential Purchase Rights, and as may be required by any regulatory agencies having jurisdiction by virtue of the public trading of the shares of either Party.

19.11. Audits.

It is expressly understood and agreed that Seller retains its right to receive its proportionate share of the proceeds from any audits relating to activities prior to the Effective Time.

19.12. Like-Kind Exchanges.

Each party consents to the other party's (or in the case of Sellers any one or more of the Sellers) assignment of its rights and obligations under this Agreement to its Qualified Intermediary (as that term is defined in Section 1.1031(k)-l(g)(4)(v) of the Treasury Regulations) in connection with effectuation of a like-kind exchange pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended. However, Seller and Buyer acknowledge and agree that any assignment of this Agreement to a Qualified Intermediary does not release either party from any of their respective liabilities and obligations to each other under this Agreement. Each party agrees to cooperate with the other to attempt to structure the transaction as a like-kind exchange. All risks associated with any like-kind exchange and compliance thereof with applicable laws, rules and regulations shall be the sole responsibility of the party attempting to structure the transaction as a like-kind exchange.

19.13. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS OTHERWISE APPLICABLE TO SUCH DETERMINATIONS.

19.14. Entire Agreement.

This Agreement embodies the entire agreement between the Parties and replaces and supersedes all prior agreements, arrangements and understandings related to the subject matter hereof, whether written or oral. No other agreement, statement, or promise made by any party, or to any employee, officer or agent of any party, which is not contained in this Agreement shall be binding or valid. This Agreement may be supplemented, altered, amended, modified or revoked by writing only, signed by the Parties hereto. The headings herein are for convenience only and shall have no significance in the interpretation hereof. The Parties stipulate and agree that this Agreement shall be deemed and considered for all purposes, as prepared through the joint efforts of the Parties, and shall not be construed against one party or the other as a result of the preparation, submittal or other event of negotiation, drafting or execution thereof. It is understood and agreed that there shall be no third-party beneficiary of this Agreement, and that the provisions hereof do not impart enforceable rights in anyone who is not a party or a successor or assignee of a party hereto.

19.15. Exhibits.

All Exhibits attached to this Agreement, and the terms of those Exhibits which are referred to in this Agreement, are made a part hereof and incorporated herein by reference.

19.16. Delivery of Files After Closing.

The Assets set out in Section 1.15(d) shall be provided by Seller to Buyer as soon as reasonably possible after the Closing Date at a location to be specified by Seller. Any transportation, postage, or delivery costs from Seller's offices shall be at Buyer's sole cost, risk and expense.

19.17. Survival.

All of the representations, warranties, indemnities, covenants and agreements of or by the parties hereto shall survive the execution and delivery of the Conveyance and Special Warranty Deed indefinitely, except that the representations of Seller in Article 4 subparagraphs (g) through (q) shall terminate at the Closing.

19.18. Subsequent Adjustments.

Regardless of the date set for the Final Settlement, Buyer and Seller agree that their intent is to allow for the earliest practical forwarding of revenue and reimbursement of expenses between them, and Seller and Buyer recognize that either may receive funds or pay expenses after the Final Settlement Date which are properly the property or obligation of the other. Therefore, upon receipt of net proceeds or payment of net expenses due to or payable by the other party hereto, whichever occurs first, Seller or Buyer, as the case may be, shall submit a statement to the other party hereto showing the relevant items of income and expense. Payment of any net amount due by Seller or Buyer, as the case may be, on the basis thereof shall be made within ten days of receipt of the statement.

19.19. Counterparts.

This Agreement may be executed in any number of counterparts, and each and every counterpart shall be deemed for all purposes one (1) agreement.

19.20. Allocation of Purchase Price Adjustments Among Sellers.

Notwithstanding anything contained herein to the contrary or that might be construed to the contrary, Sellers stipulate and agree that in connection with all adjustments to the Purchase Price made pursuant to this Agreement, (i) each Seller shall receive the benefit of any increases in the Purchase Price only to the extent of and in the proportion that any such increases are directly related to its ownership interest in an Asset as to which any such increases relate; and (ii) each Seller shall bear the loss of any decreases in the Purchase Price only to the extent of and in the proportion that any such decreases are directly related to its ownership interest in an Asset as to which any such decreases relate. Sellers shall be responsible for the proper allocation and distribution of the Purchase Price, as adjusted pursuant hereto, among themselves at and/or following the Closing and, except as otherwise provided in this Agreement, Buyer shall have no responsibility therefor.

19.21. No Representation as to Operatorship.

Seller makes no representation as to Buyer' s ability to be elected operator of any of the Assets.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]
IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

SELLER:

ENERQUEST OIL & GAS, LTD.
By: ENERQUEST PROPERTY MANAGEMENT, LLC,
its General Partner

By:_____
Robert W. Floyd
President

DINGUS INVESTMENTS, INC.

By:_____
Name:

Title:

CRUMP FAMILY PARTNERSHIP, LTD.
By: Black & Crump, Inc., its general partner

By:_____
E. Lea Crump
President

LONE STAR OIL & GAS, INC.

By:_____
James E. Cauthen
President

KITE ROYALTY CO., LLC

By:_____
Edwin W. deCordova
Manager

WHITE STAR ROYALTY CO., LLC

By:_____
Nancy deCordova
Manager

JHJ OIL, LLC

By:

Name:
Title:

MCH OIL, LLC

By:
Name:

Title:

CHRISTOPHER P. RENAUD

COURTNEY H. RENAUD

ERAM ALI

VICKI J. ALI

DOUGLAS H. CHRISTENSEN

CHERYL A. CHRISTENSEN

DAVID H. ARRINGTON

SHELLY ARRINGTON

BUYER:

RESOURCES INC.

By:

Name:
Title:

EXHIBIT A
Attached to and made a part of that certain Purchase and Sale Agreement dated April 22, 2004 by and between EnerQuest Oil & Gas, Ltd., et al., as Seller, and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

C. O. Davis

Lessor	Lessee	Lease Date	Volume/Page
Ralph R. Davis, et ux	Gulf Oil Corporation	4-11-50	86/72 (Oil and Gas Records)

Insofar as said lease covers the S/2 SW/4 and NW/4 SW/4 of Section 29, Township 18 South, Range 39 East, Lea County, New Mexico, from the surface to 4,700'.

Laney and Laney A

Lessor	Lessee	Lease Date	Volume/Page
N. Carl Laney	C. J. Sparks	11-10-49	83/65 (Oil and Gas Records)
Mary Lillian Gibbs & Lela G. Pinson	C. J. Sparks	11-10-49	83/69 (Oil and Gas Records)
Ollie M. Laney, a widow and Roy G. Laney, et ux	C. J. Sparks	11/10/49	83/73 (Oil and Gas Records)
Claud L. Laney	C. J. Sparks	11/15/49	83/77 (Oil and Gas Records)
Bertha G. Dutton	C. J. Sparks	11/24/49	83/81 (Oil and Gas records)
Velma E. Gilmer	C. J. Sparks	11/24/49	83/85 (Oil and Gas Records)

Insofar as said leases cover the NW/4 SE/4, SE/4 SE/4, E/2 SW/4 SE/4 and NW/4 SW/4 SE/4 of Section 30, Township 18 South, Range 39 East, Lea County, New Mexico.

EXHIBIT "A"
to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

Laney and Laney A (continued)

Lessor	Lessee	Lease Date	Volume/Page
T. E. Mears, et ux	C. J. Sparks	11/21/49	83/89 (Oil and Gas Records)

Insofar as said lease covers the SW/4 SW/4 SE/4 of Section 30, Township 18 South, Range 39 East, Lea County, New Mexico.

Samuel Cain

Lessor	Lessee	Lease Date	Volume/Page
Nancy Iola Henry	EnerQuest Resources, LLC	02/06/97	800/179 (Lea County Records)
Lavita Joy Sullivan	EnerQuest Resources, LLC	05/01/97	800/181 (Lea County Records)
William C. Humble	EnerQuest Resources, LLC	05/01/97	800/184 (Lea County Records)
Lora Mae Rawlings	EnerQuest Resources, LLC	05/01/97	800/187 (Lea County Records)
Marjorie H. Augustine	EnerQuest Resources, LLC	05/01/97	800/190 (Lea County Records)
Jimmy J. Hooper, et ux	EnerQuest Resources, LLC	03/20/97	800/192 (Lea County Records)
Jeanine Hooper Byron	EnerQuest Resources, LLC	03/18/97	800/195 (Lea County Records)

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EXHIBIT "A"
to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

Samuel Cain (continued)

Lessor

Lessor	Lessee	Lease Date	Volume/Page
Roy Lee Cain, Individually & as Personal Rep. of Estate of E. Von Cain	EnerQuest Resources, LLC	05/24/97	808/718 (Lea County Records)
Beverly V. Cox	EnerQuest Resources, LLC	05/06/97	808/714 (Lea County Records)
The Bessemer Trust Co., Trustee of Jill A. Roberts Rev. Trust dtd 10/27/83	EnerQuest Resources, LLC	06/13/97	808/712 (Lea County Records)
Susan A. Unterberg	EnerQuest Resources, LLC	05/21/97	808/710 (Lea County Records)
Jerry L. Hooper, et ux	EnerQuest Resources, LLC	06/04/97	808/720 (Lea County Records)

Insofar as said leases cover the NW/4 and E/2 SW/4, Section 30, Township 18 South, Range 39 East, Lea County, New Mexico.

D. F. Fergason

Lessor

Lessor	Lessee	Lease Date	Volume/Page
D. F. Fergason, et al	Roy G. Barton	05/17/43	51/10 (Oil and Gas Records)
John Stull, et al	Roy G. Barton	05/17/43	51/13 (Oil and Gas Records)
Clarence A. Johnson	Roy G. Barton	05/17/43	51/17 (Oil and Gas Records)

LEA COUNTY, NEW MEXICO

D. F. Fergason (continued)

Lessor	Lessee	Lease Date	Volume/Page
John Mein, et al	Roy G. Barton (Oil and Gas Records)	05/28/43	51/19
Harry E. & Betty Titzkowski	J. W. Wallrich (Oil and Gas Records)	05/28/43	51/23
Al Holthouse, et ux	J. W. Wallrich (Oil and Gas Records)	05/28/43	51/25
Roy G. Barton, et ux	The Texas Company (Oil and Gas Records)	05/28/43	51/28
Charles Curren	Roy G. Barton (Oil and Gas Records)	06/15/43	51/30
Clare C. Beall, et vir	The Texas Company (Oil and Gas Records)	03/10/52	100/12
Eva Mae Lewis	The Texas Company (Oil and Gas Records)	03/10/52	100/14
Robert J. Nichols, et ux	W. K. Davis (Oil and Gas Records)	12/20/54	124/93
Earl Grove	W. K. Davis (Oil and Gas Records)	08/10/56	145/354
D. E. Billings, et ux	Mercury Petroleum Company, Ltd. (Oil and Gas Records)	06/19/62	209/464
Elizabeth Jennings McCormick	Marshall R. Young Oil Co. (Oil and Gas Records)	06/04/92	486/61

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EXHIBIT "A"

to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

D. F. Fergason (continued)

Lessor	Lessee	Lease Date	Volume/Page
Charles Fred Jennings	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/63
Grace G. King Living Trust by Grace G. King, Trustee	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/65
Nellie L. Fleming	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/67
Virginia H. Jennings Matthews	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/69
Alfreda B. Peabody	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/71
Fred Jennings Trust, by Fred C. Jennings, Trustee	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/73
Helen L. Jennings	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/76
Margaret Peabody Newkom	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/78
James Roger Jennings	Young Oil Co.	Marshall R. (Oil and Gas Records) 06/04/92	486/80
Russell T. Rudy, et ux		David Wrather 151 (Lea County Records) 05/01/96	797/

Insofar as said leases cover the NE/4, Section 30, Township 18 South, Range 39 East, Lea County, New Mexico, from the surface to the base of the San Andres formation.

EXHIBIT "A"

to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

D. F. Fergason (continued)

Lessor	Lessee	Lease Date	Volume/Page
Roy G. Barton, et ux	Summers & Leroy Wise (as amended)	Robert L. 01/12/70	267/ 697 (Oil and Gas Records)
Roy G. Barton, Jr., Trustee	Resources, Inc.	Fredonia 03/01/96	797/ 153 (Lea County Records)

Insofar as said lease, as amended, covers the NE/4, Section 30, Township 18 South, Range 39 East, Lea County, New Mexico, from the surface to 4500' beneath the surface.

Rocket Cain

Lessor	Lessee	Lease Date	Volume/Page
Rocket Oil and Gas Company	Company	Aurora Gasoline 05/04/53	107/ 505 (Oil and Gas Records)

Insofar as said lease covers the W/2 SW/4, Section 30, Township 18 South, Range 39 East, Lea County, New Mexico, from the surface to the base of the San Andres formation.

Pearl Goode

ssor Le	Lessee	Lease Date	Volume/Page
Pearl Goode Hardy, et al	Corporation	Velma Petroleum 05/15/53	108/ 358 (Oil and Gas Records)

Insofar as said lease covers the N/2 NE/4, Section 31, Township 18 South, Range 39 East, Lea County, New Mexico.

EXHIBIT "A"

to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

Pearl Goode (continued)

Lessor

Lessee	Lease Date	Volume/Page
Pearl Goode Hardy, et al	Velma Petroleum Corporation	05/15/53 110/250 (Oil and Gas Records)

Insofar as said lease covers the S/2 NE/4 and NW/4, Section 31, Township 18 South, Range 39 East, Lea County, New Mexico.

State Lowe

Lessor

Lessee	Lease Date	Volume/Page
State of New Mexico	Ralph Lowe	06/10/53 109/302 (Oil and Gas Records)

Insofar as said lease covers the NW/4 and NE/4 SW/4, Section 32, Township 18 South, Range 39 East, Lea County, New Mexico, from the surface to the base of the San Andres formation.

Laney Reese #1 and #2

Lessor

Lessee	Lease Date	Volume/Page
John B. Laney, et al	Charles B. Read	02/15/50 83/475 (Oil and Gas Records)
George L. Reese, Jr., et al.	Charles B. Read	02/03/50 84/136 (Oil and Gas Records)

Insofar as said leases cover the NE/4 SE/4 of Section 30, Township 18 South, Range 39 East, Lea County, New Mexico.

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EXHIBIT "A"

to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

Zachary Davis

Lessor

	Lessee	Lease Date	Volume/Page
Ralph R. Davis, et ux	F. E. Chartier (Oil and Gas Records)	02/03/53	105/265

Insofar as said lease covers the NE/4 SW/4 of Section 29, Township 18 South, Range 39 East, Lea County, New Mexico, from the surface to a depth of 7000'.

June Speight

Lessor

	Lessee	Lease Date	Volume/Page
Nelda Charlene Browning, Individually and as Trustee of the Nelda Charlene Browning Revocable Living Trust	Enerquest Oil & Gas, Ltd.	1/3/02	113 277 (Lea County Records)
Nancy L. Willman, Trustee of the Roy Vernon Willman and Nancy L. Willman Revocable Trust dated 6/18/84	Enerquest Oil & Gas, Ltd.	1/3/02	113 279 (Lea County Records)
Ellis Carl Browning, et ux	Enerquest Oil & Gas, Ltd.	1/3/02	113 281 (Lea County Records)
Grady Hicks	Enerquest Oil & Gas, Ltd.	1/3/02	283 (Lea County Records)
Deborah A. Smith	Enerquest Oil	1/3/02	

	& Gas, Ltd.		285 (Lea County Records)	
Rex Taylor Browning	& Gas, Ltd.	Enerquest Oil	1/3/02 287 (Lea County Records)	113

EXHIBIT "A"

to Purchase and Sale Agreement between EnerQuest Oil & Gas, Ltd., et al., as Sellers and Arena Resources Inc., as Buyer

LEA COUNTY, NEW MEXICO

ne Speight (continued)

sor	**Lessee**	**Lease Date**	**Volume/Page**
da Browning man	Enerquest Oil & Gas, Ltd.	1/3/02	1131/289 (Lea County Records)
a Browning hens	Enerquest Oil & Gas, Ltd.	1/3/02	1131/291 (Lea County Records)
e Harris	Enerquest Oil & Gas, Ltd.	4/5/02	1145/455 (Lea County Records)

ofar as said leases cover the NW/4 of Section 29, Township 18 South, Range 39 East, Lea County, New Mexico.

liam John Nolan	Enerquest Oil & Gas, Ltd.	2/14/03	1209/843 (Lea County Records)
e D. Speight	Enerquest Oil & Gas, Ltd.	2/14/03	1224/295 (Lea County Records)

Insofar as said leases cover the SW/4 NW/4 of Section 29, Township 18 South, Range 39 East, Lea County, New Mexico.

Wrather Term Royalty Interest

That certain term royalty interest in the NE/4 of Section 30, Township 18 South, Range 29 East, Lea County, New Mexico, limited in depth from the surface to the base of the San Andres formation, acquired by David Wrather from Russell T. Rudy and wife, Kathy J. Rudy, pursuant to Deed of Term Royalty in Lease dated May 1, 1996, recorded in Volume 799, Page 485, Lea County Records, Lea County, New Mexico.

EXHIBIT B

Attached to and made a part of that certain Purchase and Sale Agreement dated April 22, 2004 by and between EnerQuest Oil & Gas, Ltd., et al., as Seller, and Arena Resources Inc., as Buyer

UNIT NAME	(UNIT WI) EXPENSE INTEREST	(UNIT NRI) NET REVENUE INTEREST	ALLOCATED VALUE
East Hobbs (San Andres) Unit	.73816		$9,097,772.70

Exhibit B - Page #

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EXHIBIT C

Attached to and made a part of that certain Purchase and Sale Agreement dated April 22, 2004 by and between EnerQuest Oil & Gas, Ltd., et al., as Seller, and Arena Resources Inc., as Buyer

CONVEYANCE, ASSIGNMENT AND BILL OF SALE

STATE OF NEW MEXICO §
§
COUNTY OF LEA §

KNOW ALL MEN BY THESE PRESENTS:

THAT, **ENERQUEST OIL & GAS, LTD.**, whose address is 303 W. Wall, Suite 1400, Midland, Texas 79701; **DINGUS INVESTMENTS, INC.**, whose address is P. O. Box 11120, Midland, Texas 79702; **CRUMP FAMILY PARTNERSHIP, LTD.,** a Texas limited partnership, whose address is P. O. Box 50820, Midland, Texas 79710; **LONE STAR OIL & GAS, INC.,** a Texas corporation, whose address is P. O. Box 2735, Midland, Texas 79702; **KITE ROYALTY CO., LLC,** an Oklahoma limited liability company, whose address is P. O. Box 54926, Oklahoma City, Oklahoma 73154; **WHITE STAR ROYALTY CO., LLC,** an Oklahoma limited liability company, whose address is P. O. Box 18693, Oklahoma City, Oklahoma 73154;**JHJ OIL, LLC**, a Texas limited liability company, whose address is P. O. Box 251222, Plano, Texas 75025; **MCH OIL, LLC,** a Texas limited liability company, whose address is P. O. Box 251222, Plano, Texas 75025; **CHRISTOPHER P. RENAUD AND WIFE, COURTNEY H. RENAUD**, whose address is P. O. Box 11301, Midland, Texas 79702; **ERAM ALI AND WIFE, VICKI J. ALI**, whose address is P. O. Box 81052, Midland, Texas 79702; **DOUGLAS H. CHRISTENSEN AND WIFE, CHERYL A. CHRISTENSEN,** whose address is P. O. Box 3790, Midland, Texas 79702; and **DAVID H. ARRINGTON AND WIFE, SHELLY ARRINGTON,** whose address is P. O. Box 2071, Midland, Texas 79702 (collectively, "Assignor") in consideration of Ten Dollars ($10.00) and other good and valuable consideration to them in hand paid, the receipt and sufficiency of which is hereby acknowledged, and subject to the terms, conditions and reservations contained herein, do hereby GRANT, BARGAIN, CONVEY, SELL, ASSIGN, and TRANSFER unto **ARENA RESOURCES INC.,** whose address is 4920 South Lewis, Suite 107, Tulsa, Oklahoma 74105 ("Assignee") the following assets, LESS AND EXCEPT the Excluded Assets (defined below):

1. all of Assignor' s right, title and interest in and to the oil, gas and/or mineral leases described on Exhibit A attached hereto and made part hereof (the "Leases"), together with all rights incident thereto, including without limitation, all rights in any pooled, unitized or communitized acreage by virtue of the Leases being a part thereof;

2. all of Assignor' s right, title, and interest in and to that certain Term Royalty Interest in the NE/4 of Section 30, Township 18 South, Range 39 East, Lea County, New Mexico, limited in depth from the surface to the base of the San Andres formation only, created by that certain Deed of Term Royalty in Lease dated as of May 1, 1996, recorded in Book 799, Page 485 of the Lea County Records, Lea County, New Mexico, from Russell T. Rudy and wife, Kathy J. Rudy, to David Wrather;

3. all of Assignor' s right, title and interest in and to the following assets insofar as the same do not constitute Excluded Assets and are attributable to, pertinent to, incidental to or used for the operation of the Leases:

   (a) all easements, rights of way, permits, licenses, servitudes or other interests used in connection with the Leases;

   (b) all wells, equipment and other personal property, inventory, spare parts, tools, fixtures, pipelines, platforms, tank batteries, appurtenances, and improvements situated upon the Leases are used or held for use in connection with the development or operation of the Leases or the production, treatment, storage, compression, processing or transportation of hydrocarbons from or in the Leases;

   (c) all contracts, agreements and title instruments to the extent attributable to and affecting the Leases, including without limitation, all hydrocarbon sales, purchase, gathering, transportation, treating, marketing, exchange, processing and fractionating contracts, and joint operating agreements; and

   (d) all lease files, land files, well files, production records, division order files, abstracts, title opinions and contract files, insofar as the same are directly related to the Leases, and including, without limitation, all seismic, geological, geochemical, and geophysical

information and data, to the extent that such data is not subject to any third party restrictions, but excluding Assignor's proprietary interpretations of same; and

4. all of Assignor's right, title and interest in all merchantable oil and condensate (for oil or liquids in storage tanks, being only that oil or liquids physically above the top of the inlet connection into such tanks) produced from or attributable to the Leases prior to the Effective Time (defined below) which have not been sold by Assignor and are in storage at the Effective Time ("Inventory Hydrocarbons");

The interests described in paragraphs 1, 2 and 3 above, less and except the Excluded Assets, are collectively referred to herein as the "Assets".

The Assets do not include and Assignee agrees and acknowledges that Assignor has RESERVED and RETAINED from the Assets and Assignor hereby RESERVES and RETAINED unto Assignor, their respective heirs, successors and assigns, any and all rights, titles and interests in and to the following:

() all of Assignor's royalty, overriding royalty and fee mineral interests in the Leases, in the lands covered by the Leases and/or in lands pooled, unitized or communitized with lands covered by the Leases, less and except the term royalty interest specifically described in item 2 above;

(b) () all trade credits, accounts receivable, notes receivable and other receivables attributable to Assignor's interest in the Assets with respect to any period of time prior to the Effective Time; () all deposits, cash, checks in process of collection, cash equivalents and funds attributable to Assignor's interest in the Assets with respect to any period of time prior to the Effective Time; and () all proceeds, benefits, income or revenues accruing (and any security or other deposits made) with respect to the Assets prior to the Effective Time;

(c) all corporate, financial, and tax records, economic evaluations and reserve reports of Assignor and all records that are subject to the attorney/client or work product privilege (other than title opinions covering any interest in the Assets); however, Assignee shall be entitled to receive copies of any tax records which directly relate to any assumed obligations, or which are necessary for Assignee's ownership, administration, or operation of the Assets;

(d) all claims and causes of action of Assignor arising from acts, omissions or events, or damage to or destruction of the Assets, occurring prior to the Effective Time;

(e) all rights, titles, claims and interests of Assignor relating to the Assets prior to the Effective Time () under any policy or agreement of insurance or indemnity; () under any bond; or () to any insurance or condemnation proceeds or awards;

(f) all hydrocarbons produced from or attributable to the Assets with respect to all periods prior to the Effective Time, together with all proceeds from or of such hydrocarbons, except the Inventory Hydrocarbons;

(g) claims of Assignor for refund of or loss carry forwards with respect to production, windfall profit, severance, ad valorem or any other taxes attributable to any period prior to the Effective Time, or income or franchise taxes;

(h) all amounts due or payable to Assignor as adjustments or refunds under any contracts or agreements (including take-or-pay claims) affecting the Assets, respecting periods prior to the Effective Time;

(i) all amounts due or payable to Assignor as adjustments to insurance premiums related to the assets with respect to any period prior to the Effective Time;

(j) all proceeds, benefits, income or revenues accruing (and any security or other deposits made) with respect to the Assets, and all accounts receivable attributable to the Assets, prior to the Effective Time;

(k) all of Assignor's intellectual property, including, but not limited to, proprietary computer software, patents, trade secrets, copyrights, names, marks and logos; and

(l) all of Assignor's remote terminal units, automobiles and trucks located on or used in connection with the Assets described in Exhibit A,

(items (a) through (l) above being collectively referred to herein as the "Excluded Assets")

Assignee, in consideration of the mutual benefits to be derived hereunder by its acceptance hereof, understands and agrees to the following terms and conditions

1. This Conveyance is made subject to that certain Purchase and Sale Agreement (the "Purchase Agreement") dated April 22, 2004 between Assignor and Assignee, and all terms and conditions of said Purchase Agreement are incorporated herein by reference to the same extent and with the same effect as if copied in full herein. In the event of a conflict between the terms and conditions of this Conveyance and the terms and conditions of the Purchase Agreement, the Purchase Agreement shall govern and control.

2. THIS ASSIGNMENT IS MADE WITHOUT WARRANTY OF ANY TYPE, EXPRESS, STATUTORY, OR IMPLIED, EXCEPT THAT EACH ASSIGNOR SEVERALLY WARRANTS TITLE TO THE INTEREST HEREIN CONVEYED BY SUCH ASSIGNOR BY, THROUGH AND UNDER SUCH ASSIGNOR BUT NOT OTHERWISE. This Assignment is made with full substitution and subrogation to Assignee in and to all covenants and warranties by others heretofore given or made with respect to the Assets.

3. Assignor and Assignee will execute, acknowledge and deliver to the other such further instruments, and take such other action, as may be reasonably requested in order to more effectively assure to said party all of the respective properties, rights, titles, interest, estates and privileges intended to be assigned, delivered or inuring to the benefit of such party in consummation of the transaction contemplated hereby.

TO HAVE AND TO HOLD the same unto the said Assignee forever. The provisions hereof shall be covenants running with the land and shall inure to the benefit of and be binding upon Assignor and Assignee, their respective heirs, personal representatives, successors and assigns.

ment on the date of the acknowledgments annexed hereto, but to be effective for all purposes on March 1, 2004, at 7:00 a.m. local time where the Assets are located (the "Effective Time").

ASSIGNOR:

ENERQUEST OIL & GAS, LTD.
By: ENERQUEST PROPERTY MANAGEMENT, LLC, its General Partner

By:_____

Title:

DINGUS INVESTMENTS, INC.

By:_____
Name:

Title:

CRUMP FAMILY PARTNERSHIP, LTD.
By: Black & Crump, Inc., its general partner

By:_____
Name:

Title:

LONE STAR OIL & GAS, INC.

By:_____
Name:

Title:

KITE ROYALTY CO., LLC

By:_____
Name:

Title:

WHITE STAR ROYALTY CO., LLC

By:_____
Name:

Title:

JHJ OIL, LLC

By:

Name:
Title:

MCH OIL, LLC

By:
Name:

Title:

CHRISTOPHER P. RENAUD

COURTNEY H. RENAUD

ERAM ALI

VICKI J. ALI

DOUGLAS H. CHRISTENSEN

CHERYL A. CHRISTENSEN

DAVID H. ARRINGTON

SHELLY ARRINGTON

ASSIGNEE:

RESOURCES INC.

By:_____
Name:

Title:

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of EnerQuest Property Management, LLC, a Texas limited liability company, acting as General Partner of ENERQUEST OIL & GAS, LTD., a Texas limited partnership, on behalf of said limited liability company and limited partnership.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of DINGUS INVESTMENTS, INC., a Texas corporation, on behalf of said corporation.

_____
Notary Public, State of Texas
My Commission Expires:

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of Black & Crump, Inc., a Texas corporation, acting as General Partner of CRUMP FAMILY PARTNERSHIP, LTD., a Texas limited partnership, on behalf of said corporation and limited partnership.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of LONE STAR OIL & GAS, INC., a Texas corporation, on behalf of said corporation.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF

COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of KITE ROYALTY CO., LLC, an Oklahoma limited liability company, on behalf of said limited liability company.

_____
Notary Public, State of

My Commission Expires: _____

STATE OF
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of WHITE STAR ROYALTY CO., LLC, an Oklahoma limited liability company, on behalf of said limited liability company.

_____
Notary Public, State of
My Commission Expires: _____

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STATE OF TEXAS '
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of JHJ OIL, LLC, a Texas limited liability company, on behalf of said limited liability company.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS '
COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of MCH OIL, LLC, a Texas limited liability company, on behalf of said limited liability company.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by CHRISTOPHER P. RENAUD and COURTNEY H. RENAUD, husband and wife.

_____
Notary Public, State of Texas
My Commission Expires:_____

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by ERAM ALI and VICKI J. ALI, husband and wife.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by DOUGLAS H. CHRISTENSEN and CHERYL A. CHRISTENSEN, husband and wife.

_____
Notary Public, State of Texas
My Commission Expires: _____

Exhibit C - Page #

Mid: 008523\000033\409586.2

STATE OF TEXAS '
COUNTY OF MIDLAND '

This instrument was acknowledged before me on the _____ day of _____, 2004, by DAVID H. ARRINGTON and SHELLY ARRINGTON, husband and wife.

_____
Notary Public, State of Texas
My Commission Expires: _____

STATE OF

COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 2004, by _____, _____ of ARENA RESOURCES, INC., a Nevada corporation, on behalf of said corporation.

_____
Notary Public, State of _____
My Commission Expires:_____

Mid: 008523\000033\409586.2

EXHIBIT D

Attached to and made a part of that certain
Purchase and Sale Agreement dated April 22, 2004
by and between EnerQuest Oil & Gas, Ltd., et al., as Seller,
and Arena Resources Inc., as Buyer

NON-FOREIGN AFFIDAVIT

Exemption from Withholding of Tax For
Dispositions of U.S. Real Property Interests

Section 1445 of the Internal Revenue Code provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. To inform _____that withholding of tax is not required upon the disposition of U.S. real property interests by _____ the undersigned hereby certifies the following:

1.

The undersigned is not a foreign corporation, foreign partnership, foreign trust, or foreign estate for purposes of U.S. income taxation;

2. The undersigned's taxpayer identification number is: _____.

3. The home or office address of the undersigned is _____.

The undersigned understand that this certification may be disclosed to the Internal Revenue Service by Arena Resources Inc. and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete, and I further declare that I have authority to sign this document.

DATED this _____ day of _____, 2004.

_____

_____

STATE OF _____ §
§
COUNTY OF _____ §

SWORN TO AND SUBSCRIBED BEFORE ME this _____ day of _____, 2004, by _____.

_____
Notary Public, State of _____

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EXHIBIT E
Attached to and made a part of that certain

GAS IMBALANCES

None.

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EXHIBIT 10.2

CREDIT AGREEMENT

Dated as of April 14, 2004

Between

ARENA RESOURCES, INC., a Nevada corporation

"Borrower"

and

MIDFIRST BANK

"Bank"

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated effective as of April 14, 2004, is made and entered into between ARENA RESOURCES, INC., a Nevada corporation (the "Borrower"), and MIDFIRST BANK (the "Bank").

WITNESSETH:

WHEREAS, the Borrower has requested the Bank to establish a (A) revolving line of credit in favor of the Borrower in the maximum principal amount not in excess of the least of (i) FIFTEEN MILLION AND NO/100 DOLLARS ($15,000,000.00), (ii) the Line Commitment (as herein defined), or (iii) the Collateral Borrowing Base (as herein defined, established and redetermined from time to time), to be evidenced by the Borrower's promissory note payable to the order of the Bank and dated as of even date herewith (the "Line Note") for the purposes of financing (x) the Borrower's acquisition of Proved Developed Producing Reserves (as hereinafter defined) from time to time on acquisitions approved for financing by the Bank, including without limitation, the East Hobbs Acquisition and (y) the

issuance of certain standby letters of credit in the operation of the Borrower's oil and gas business, and (B) a short term bridge loan in favor of the Borrower in the maximum principal amount not in excess of $2,000,000.00 (the "Bridge Commitment") for the sole purpose of enabling the Borrower to close the East Hobbs Acquisition and to be evidenced by the Borrower's promissory note payable to the order of the Bank and dated as of even date herewith (the "Bridge Note") (the "Line Commitment and the Bridge Commitment, collectively, the "Commitments"); and

WHEREAS, the Bank is willing to establish the Commitments in favor of the Borrower upon the terms and conditions herein set forth and upon the Borrower's granting in favor of the Bank a continuing and continuous first and prior mortgage lien, pledge of and security interest in certain oil and gas leasehold, mineral and mining interests, all as more particularly described and defined in the Mortgage (as hereinafter defined), as collateral and security for all indebtedness incurred pursuant to the Commitments;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, receipt of which is acknowledged by the parties hereto, the parties agree, as follows:

ARTICLE I

CERTAIN DEFINITIONS

When used herein, the following terms shall have the following meanings:

"Adjusted Gross Proceeds" shall mean (i) all proceeds received by the Borrower during the applicable period, whether directly or indirectly, from purchasers of Hydrocarbons produced from the Mortgaged Property, plus (ii) all amounts which the Borrower was entitled to receive during such period but which were offset by the purchaser of production or an intermediary against obligations (other than ordinary operating expenses) owing by the Borrower; less the amount of all gathering, severance and windfall profits taxes required to be paid by the Borrower with respect to said proceeds and all royalty and overriding royalty payments to third parties and all ordinary and necessary operating expenses paid by the Borrower with respect to the Mortgaged Property.

"Advances" shall mean any and all Line Advances and Bridge Advances.

"Applicable Rate" shall mean the LIBOR-Rate plus the Margin unless the Base Rate is deemed applicable in accordance with the provisions of Section 2.6 hereof. Any changes in the Applicable Rate shall be effective as of the date of the change.

"Authorized Signatory(ies)" shall mean Stanley McCabe and/or any other person(s) authorized in writing thereby or pursuant to corporate resolutions duly adopted by the Borrower's board of directors to request Advances hereunder or direct voluntary prepayment(s) of the Notes as permitted hereby.

"Base Rate" shall mean the variable annual rate of interest announced from time to time by JPMorgan Chase Bank, N. A., New York, New York, or such other financial institution that is the primary banking subsidiary of JPMorgan Chase & Company ("Chase"), from time to time as its prime or base rate, which rate shall be the rate used by Chase as a base or standard for pricing purposes and which shall not necessarily be its "best" or lowest rate) as its prime or base lending rate of interest. Should Chase cease to announce a prime or base rate or should it be merged, consolidated, liquidated or dissolved in such a manner that it loses its separate corporate identity, then the Base Rate shall be the Prime Rate published by *The Wall Street Journal (Southwest Edition)* in its "Money Rates" column or a similar rate if such rate ceases to be published.

"Bridge Commitment" shall mean the agreement of the Bank to make the Bridge Loan under Section 2.1.2 of this Agreement in the maximum principal amount of $2,000,000.00 for the sole purpose of financing the Borrower's East Hobbs Acquisition.

"Bridge Loan" shall have the meaning ascribed to it in Section 2.1.2 of this Agreement.

"Bridge Note" shall mean the promissory note from the Borrower payable to the order of the Bank and evidencing the Bridge Loan as more particularly described in Section 2.2.2 of this Agreement.

"Business Day" shall mean a day other than a Saturday, Sunday or a day upon which banks in the State of Oklahoma are closed to business generally.

"Capital Lease" shall mean, with respect to any Person, any lease of (or other agreement conveying the right to use) any real or personal property by such Person that, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of such Person.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, together with all regulations and rulings promulgated with respect thereto.

"Closing Date" shall mean the date the Loan Documents are executed and delivered to the Bank.

"Collateral" shall have the meaning assigned to that term in Article IV of this Agreement.

"Current Assets" shall mean the value of the Borrower's current assets determined in accordance with GAAP plus, as of any date, the current unused availability on the Commitments.

"Current Liabilities" shall mean the amount of the Borrower's current liabilities as determined in accordance with GAAP, excluding therefrom current maturities due on the Loans.

"Current Ratio" shall mean the ratio of Current Assets to Current Liabilities.

"Default Rate" shall mean the Applicable Rate plus five percentage points (5%) per annum.

"Dollar," "Dollars," and the symbol "$" shall mean lawful money of the United States of America.

"East Hobbs Acquisition" shall mean the acquisition by the Borrower of the Proved Developed Producing Reserve oil and gas wells and twelve (12) leasehold properties situated in the East Hobbs San Andres unit of Lea County, New Mexico, from CrownQuest Operating, LLC (the "Seller"), as more particularly described in that certain term sheet delivered by the Borrower to the Bank.

"EBIT" shall mean, for any period, Net Income for such period plus, to the extent deducted in determining such Net Income, Interest Expense and income tax expense for such period.

"Environmental Laws" shall mean Laws, including without limitation federal, state or local Laws, ordinances, rules, regulations, interpretations and orders of courts or administrative agencies or authorities relating to pollution or protection of the environment (including, without limitation, ambient air, surface water, groundwater, land surface and subsurface strata), including without limitation CERCLA, SARA, RCRA, HSWA, OPA, HMTA, TSCA and other Laws relating to (i) Polluting Substances or (ii) the manufacture, processing, distribution, use, treatment, handling, storage, disposal or transportation of Polluting Substances.

"Event of Default" shall mean any of the events specified in Section 8.1 of this Agreement, and "Default" shall mean any event, which together with any lapse of time or giving of any notice, or both, would constitute an Event of Default.

"GAAP" shall mean generally accepted accounting principles applied on a consistent basis in all material respects to those applied in the preceding period. Unless otherwise indicated herein, all accounting terms will be defined according to GAAP.

"Guaranties" shall mean the guaranty instruments executed and delivered to the Bank by the Guarantors. "Guaranty" shall mean any one of the Guaranties.

"Guarantors" shall mean each of Stanley M. McCabe, Lloyd T. Rochford, and the trustees of the Lloyd Rochford Living Trust (the "Rochford Trust"), on a joint and several liability basis.

"hereby," "herein," "hereof," "hereunder" and similar such terms shall mean and refer to this Agreement as a whole and not merely to the specific section, paragraph or clause in which the respective word appears.

"HMTA" shall mean the Hazardous Materials Transportation Act, as amended, together with all regulations and rulings promulgated with respect thereto.

"HSWA" shall mean the Hazardous and Solid Waste Amendments of 1984, as amended, together with all regulations and rulings promulgated with respect thereto.

"Hydrocarbons" shall have the meaning assigned to that term in the Mortgage.

"Indebtedness" shall mean and include any and all: (i) indebtedness, obligations and liabilities of the Borrower to the Bank incurred or which may be incurred or purportedly incurred hereafter pursuant to the terms of this Agreement or any of the other Loan Documents, and any extensions, renewals, substitutions, amendments and increases in amount thereof, including such amounts as may be evidenced by the Notes and all lawful interest, letters of credit fees and other charges, and all reasonable costs and expenses incurred in connection with the preparation, filing and recording of any amendment or modification of the Loan Documents, including attorneys fees; (ii) all reasonable costs and expenses, including attorneys' fees, paid or incurred by the Bank in enforcing or attempting to enforce collection of any Indebtedness and in enforcing or realizing upon or attempting to enforce or realize upon any collateral or security for any Indebtedness and in protecting and preserving the Bank's interest in the Indebtedness or any collateral or security for any Indebtedness in any bankruptcy or reorganization proceeding, including interest on all sums so expended by the Bank accruing from the date upon which such expenditures are made until paid, at an annual rate equal to the Default Rate; (iii) sums expended by the Bank in curing any Event of Default or Default of the Borrower under the terms of this Agreement, the other Loan Documents or any other security agreement or other writing evidencing or securing the payment of the Notes together with interest on all sums so expended by the Bank accruing from the date upon which such expenditures are made until paid, at an annual rate equal to the Default Rate; and (iv) all "Indebtedness" or "Secured Indebtedness" as said terms are defined in each of the Loan Documents.

"Initial Engineering Report" shall mean the engineering report evaluating the Borrower's proven producing oil and gas reserves prepared by Lee Keeling and Associates dated January 1, 2004.

"Interest Coverage Ratio" shall mean the ratio of (a) EBIT for such period to (b) Interest Expense for such period.

"Interest Expense" shall mean for any period the consolidated interest expense of the Borrower for such period (including all imputed interest on Capital Leases).

"ISDA Agreement" shall means the International Swap Dealers Association agreement, as amended, modified, replaced or supplemented from time to time, together with exhibits, schedules, addenda and annexes attached thereto from time to time.

"Laws" shall mean all statutes, laws, ordinances, regulations, orders, writs, injunctions, or decrees of the United States, any state or commonwealth, any municipality, any foreign country, any territory or possession, or any Tribunal.

"LIBOR-Rate" shall mean the rate of interest quoted for the "London Interbank Offered Rates (LIBOR)" category of the "Money Rates" column in *The Wall Street Journal* (Southwest Edition) on the date of the Borrower's Request (or, if *The Wall Street Journal* is not published on such day, the next previous publication date thereof) as the average of quotations at major money center banks for the applicable LIBOR-Rate Funding Periods available hereunder three (3) London Business Days prior to the first day of such applicable LIBOR-Rate Funding Period. The LIBOR-Rate established on the date of the Request for a LIBOR-Rate Funding Period shall be the interest rate basis used for each day in the applicable LIBOR-Rate Funding Period as so determined or adjusted, which determination or adjustment shall

be conclusive if made in good faith. If *The Wall Street Journal* shall cease to publish such LIBOR-Rate quotations, the Bank shall determine such rate as the average of such LIBOR-Rate quotations of three (3) major New York money center banks of whom the Bank shall inquire.

"LIBOR-Rate Funding Period" shall mean the applicable funding period quotation for the LIBOR-Rate as described in Section 2.5(a) of this Agreement.

"LIBOR-Rate Option" shall have the meaning ascribed to that term in Section 2.4(a) of this Agreement.

"Lien" shall mean any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement or other similar form of public notice under the Laws of any jurisdiction).

"Lien Notice" shall mean notice received or obtained by the Bank or knowledge obtained by the Bank of any Lien being claimed (whether valid or not) by any Person, other than the Bank or a trustee on behalf of the Bank, with respect to the Mortgaged Property.

"Line Advance" shall have the meaning ascribed to such term in Section 2.1.1 of this Agreement.

"Line Commitment" shall mean the agreement of the Bank to make the (A) Line Loan under Section 2.1.1 of this Agreement in such maximum outstanding principal amount as may be established by the Bank in writing from time to time (initially limited to a maximum Line Commitment amount and a Collateral Borrowing Base amount of $10,400,000 each notwithstanding the stated face amount of the Line Note), for the limited purposes of financing (i) the Borrower's acquisition of Proved Developed Producing Reserves and (ii) the issuance of standby letters of credit in the operation of the Borrower's oil and gas business.

"Line Loan" shall have the meaning ascribed to it in Section 2.1.1 of this Agreement.

"Line Note" shall mean the promissory note from the Borrower payable to the order of the Bank and evidencing the Line Loan as more particularly described in Section 2.2.2 of this Agreement.

"Loan Documents" shall mean this Agreement, the Notes, the Security Instruments, the Guaranties and all other documents, instruments, title reports, title opinions and certificates executed and delivered to the Bank by the Borrower pursuant to the terms of this Agreement.

"Loans" shall mean the Bridge Loan and the Line Loan, collectively.

"London Business Day" shall mean a day for dealing in deposits in Dollars by and among banks in the London, England interbank market that is also a Business Day.

"Margin" shall mean two hundred twenty five basis points (2.25%).

"Month", with respect to a LIBOR-Rate Funding Period, shall mean the interval between the Fixed Dates in consecutive calendar months as to such LIBOR-Rate Funding Period. The "Fixed Date" shall mean the first day of such LIBOR-Rate Funding Period and in a succeeding calendar month as to such LIBOR-Rate Funding Period shall mean the day in such calendar month numerically corresponding to such first day except (a) if there is no such numerically corresponding day in a succeeding calendar month the "Fixed Date" for such calendar month shall mean the last London Business Day of such calendar month, (b) if such first day is the last day of a calendar month the "Fixed Date" for any succeeding calendar month shall mean the last London Business Day of such calendar month and (c) otherwise, if a numerically corresponding day in a succeeding calendar month is not a London Business Day, the "Fixed Date" for such calendar month shall mean the next following day that is a London Business Day.

"Mortgage" shall have the meaning assigned to that term in Section 4.1 of this Agreement.

"Mortgaged Property" shall have the meaning assigned to that term in the Mortgage.

"Net Income" shall mean, with respect to the Borrower for any period, the net income (or loss) of the Borrower for such period, excluding (i) any extraordinary gains or any extraordinary non-cash losses, (ii) any gains or non-cash losses from the disposition of assets, and (iii) other non-cash losses; provided that in any of the foregoing cases, any non-cash losses shall not be excluded to the extent that any such non-cash losses will require a cash payment in a future period.

"Notes" shall mean the Line Note and the Bridge Note, together with any and all extensions, renewals, modifications, replacements, consolidations, exchanges, substitutions and restatements of either thereof. "Note" shall mean either of the Line Note or the Bridge Note.

"OPA" shall mean the Oil Pollution Act of 1990, as amended, together with all regulations and rulings promulgated with respect thereto.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization, and a government or any department, agency or political subdivision thereof.

"Polluting Substances" shall mean all pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes and shall include, without limitation, any flammable explosives, radioactive materials, oil, hazardous materials, hazardous or solid wastes, hazardous or toxic substances or related materials defined in CERCLA/SARA, RCRA/HSWA and in the HMTA; provided, in the event either CERCLA/SARA, RCRA/HSWA or HMTA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and, provided further, to the extent that the Laws of any State or other Tribunal establish a meaning for "hazardous substance," "hazardous waste," "hazardous RCRA/HSWA material," "solid waste" or "toxic substance" which is broader than that specified in CERCLA/SARA or HMTA, such broader meaning shall apply.

"Prohibited Hedge Transactions" shall mean the obligations by the Borrower entering into (i) both physical and financial hedging transactions effective at concurrent or overlapping periods of time on the same volumes of production or (ii) hedging transactions for more than seventy percent (75%) of the Borrower's aggregate monthly production.

"Proved Developed Producing Reserves" shall mean Proved Developed Reserves to be produced from completion intervals open to production in existing wells.

"Proved Developed Reserves" shall mean Proved Reserves to be recoverable through existing equipment and with existing facilities.

"Proved Reserves" shall mean the quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions, representing strictly technical judgments and not knowingly influenced by attitudes of conservatism or optimism.

"RCRA" shall mean the Resource Conservation and Recovery Act of 1976, as amended, together with all regulations and rulings promulgated with respect thereto.

"Request" shall have the meaning ascribed to that term in Section 2.3 of this Agreement.

"SARA" shall mean the Superfund Amendments and Reauthorization Act of 1987, as amended, together with all regulations and rulings promulgated with respect thereto.

"Security Instruments" shall mean the Mortgage and all other financing statements, deeds of trust, assignments, security agreements, documents or writings and any and all amendments and supplements thereto, granting, conveying, assigning, transferring or in any manner providing the Bank with a security interest, mortgage lien or deed of trust lien in any property as security for the repayment of all or any part of the Indebtedness.

"Tangible Net Worth" shall mean Net Worth minus all assets that would be classified as intangible assets under GAAP, including (without limitation) good will, patents, franchises, organization costs, research and development costs, covenants not to compete and other deferred charges excluding intangible development costs. "Net Worth" shall mean, on any date as of which the amount thereof is to be determined, the sum of the following determined in accordance with GAAP; (a) the amount of stated capital plus (b) the amount of surplus and retained earnings (or, in the case of surplus or retained earnings deficit, minus the amount of such deficit).

"Taxes" shall mean all taxes, assessments, fees, or other charges or levies from time to time or at any time imposed by any Laws or by any Tribunal.

"Tribunal" shall mean any municipal, state, commonwealth, Federal, foreign, territorial or other sovereign, governmental entity, governmental department, court, commission, board, bureau, agency or instrumentality.

"TSCA" shall mean the Toxic Substances Control Act, as amended, together with all regulations and rulings promulgated with respect thereto.

ARTICLE II

LOANS

2.1 Commitments.

2.1.1 Line Commitment. The Bank agrees, upon the terms and subject to the conditions hereinafter set forth, to establish a revolving line of credit (the "Line Loan") in favor of the Borrower pursuant to which the Bank will lend to the Borrower such amounts as the Borrower may from time to time request (such advances to the Borrower on the Line Loan are collectively herein referred to as "Line Advances") until April 13, 2007; provided that no Line Advance shall be made available at any time when the aggregate outstanding principal balance of all unpaid Line Advances made by the Bank to the Borrower hereunder exceeds the *least* of $15,000,000, the Collateral Borrowing Base (initially stipulated to be $10,400,000) or the then applicable Line Commitment amount (initially stipulated to be $10,400,000.00), or such requested Line Advance would cause the same to exceed the least of $15,000,000, the Line Commitment amount (currently $10,400,000), or the then applicable Collateral Borrowing Base (as determined and adjusted from time to time in accordance with the provisions of Section 3.1 hereof). Subject to such limitations and conditions, the Borrower may borrow, repay and reborrow under the Line Loan, subject to the terms hereof. The maximum Line Commitment amount (currently stipulated to be $10,400,000) shall not be increased without the Bank' s express written consent thereto. Such Line Commitment may be terminated, canceled and extinguished by the Borrower upon written notice to the Bank thereof only if and to the extent no Line Loan is outstanding and unpaid and no unexpired Letters of Credit remain outstanding and in effect.

2.1.2 Bridge Commitment. The Bank agrees, upon the terms and subject to the conditions hereinafter set forth, to establish a non-revolving line of credit (the "Bridge Loan") in favor of the Borrower pursuant to which the Bank will lend to the Borrower such amounts as the Borrower may from time to time request (such advances to the Borrower are collectively herein referred to as "Bridge Advances") until June 30, 2004, only for the purpose of financing the Borrower's East Hobbs Acquisition. Subject to such limitations and conditions, the Borrower may not reborrow under the Bridge Loan following payment or prepayment thereof. Such Bridge Commitment may be terminated, canceled and extinguished by the Borrower upon written notice to the Bank thereof only if and to the extent no Bridge Loan is outstanding and unpaid.

2.2 Notes.

2.2.1 Line Note. The Borrower's obligation to repay all Line Advances made by the Bank under the Line Loan, together with interest accruing thereon shall be evidenced by the Borrower's promissory note of even date herewith payable to the order of the Bank in the original principal amount of $15,000,000.00 (the "Line Note"). A copy of the Line Note is attached hereto as Exhibit A-1. The Line Note shall accrue interest on unpaid balances of principal, and on any past due interest, at a variable annual rate equal from day to day to the Applicable Rate, due monthly on the last day of each calendar month, commencing April 30, 2004, with the outstanding principal balance thereof and all accrued but unpaid interest on the Line Note due and payable at final maturity on April 13, 2007. The Bank's Line Commitment on the Line Loan shall automatically extinguish on such final maturity date. After maturity (whether by acceleration or otherwise) the Line Note shall bear interest at the Default Rate payable on demand. Notwithstanding the face amount of the Line Note, the maximum outstanding amount available in Line Advances from time to time shall in no event exceed the lesser of the Collateral Borrowing Base (initially stipulated to be $10,400,000) or the current applicable Commitment amount (presently stipulated to be $10,400,000).

2.2.2 Bridge Note. The Borrower's obligation to repay all Bridge Advances made by the Bank under the Bridge Loan, together with interest accruing thereon shall be evidenced by the Borrower's promissory note of even date herewith payable to the order of the Bank in the original principal amount of $2,000,000.00 (the "Bridge Note"). A copy of the Bridge Note is attached hereto as Exhibit A-2. The Bridge Note shall accrue interest on unpaid balances of principal, and on any past due interest, at a variable annual rate equal from day to day to the Applicable Rate, due monthly on the last day of each calendar month, commencing April 30, 2004, with the outstanding principal balance thereof and all accrued but unpaid interest on the Bridge Note due and payable at final maturity on June 30, 2004. The Bank's Bridge Commitment on the Bridge Loan shall automatically extinguish on such final maturity date. After maturity (whether by acceleration or otherwise) the Bridge Note shall bear interest at the Default Rate payable on demand.

2.3 Revolving Credit Advances, Payments and Voluntary Prepayment. Each Line Loan and Bridge Loan requested by the Borrower from the Bank (a "Request") shall (i) be requested in writing (facsimile is satisfactory) by the Borrower no later than 12:00 noon (applicable current time in Tulsa, Oklahoma) on the date upon which the advance is to be made, or alternatively, requested telephonically before 12:00 noon (applicable current time in Tulsa, Oklahoma) on the date such advance is to be made (such telephonic request to be promptly confirmed by a written request in accordance herewith), and if by written request, such writing shall be executed by an Authorized Signatory on a form of loan advance request; (ii) be in the amount of $10,000 or an integral multiple thereof (unless the amount then available to borrow is less than $10,000, in which event an advance may be made in the amount available); (iii) be advanced by the Bank on the applicable date, provided the request is timely made in accordance with Section 2.3(i) hereof and all other conditions of funding are met; and (iv) with respect to Line Loans requested by the Borrower, not cause the aggregate outstanding and unpaid principal amount of the Line Note to exceed the Collateral Borrowing Base. All Advances made by the Bank shall, for mutual convenience, be deposited into the Borrower's account at the Bank, and the Bank shall have no responsibility to monitor the distribution or disbursement of such Advances in any other respect. In consideration of the Bank's permitting the Borrower to make requests for Advances by telephone, the Borrower states that it is fully aware of the risks attendant thereto, and agrees to accept all such risks and to hold the Bank and its officers, directors, agents and employees harmless from any and all loss which the Borrower may incur by reason of any such non-written loan advance requests, other than such losses as result solely from the Bank' s gross negligence of wanton disregard.

Subject to Section 2.5 hereof, the Borrower may from time to time make prepayments of principal without premium or penalty. The Borrower may reborrow under the Line Commitment subject to the limitations and conditions for the Line Loan contained herein. All advances made by the Bank on the Notes and all payments or prepayments of principal and interest thereon made by the Borrower shall be recorded by the Bank in its records, and the aggregate unpaid principal amount so recorded shall be conclusive evidence of the principal amount owing and unpaid on the Line Note and the Bridge Note, respectively. The failure to so record shall not, however, limit or otherwise affect the obligations of the Borrower hereunder or under the Notes to repay the principal amount of the Loans together with all interest accrued thereon. If additional lines or blanks shall be needed for the purpose of recording advances or payments

on the schedule, one or more additional schedules may be annexed to the Line Note or the Bridge Note, as applicable, and shall become a part thereof. All payments and prepayments shall be made in lawful money of the United States of America. Any payments or prepayments on the either Note received by the Bank after 12:00 noon (applicable current time in Tulsa, Oklahoma) shall be deemed to have been made on the next succeeding Business Day. All outstanding principal of and accrued interest on the Line Note not previously paid hereunder shall be due and payable at the final maturity date on April 13, 2007, unless such maturity date shall be extended by the Bank in writing or accelerated pursuant to the terms hereof. All outstanding principal of and accrued interest on the Bridge Note not previously paid hereunder shall be due and payable at the final maturity date on June 30, 2004, unless such maturity date shall be extended by the Bank in writing or accelerated pursuant to the terms hereof.

2.4 Interest Rates.

(a) Interest Rate. Subject to the provisions hereof, the Borrower shall select the LIBOR-Rate Option for Advances hereunder. Advances outstanding from time to time on the Notes shall accrue interest at one of the LIBOR-Rate Funding Periods; provided that the minimum Advance to which a LIBOR-Rate Option election is available shall be $500,000.00 or in $100,000.00 increments in excess thereof. The "LIBOR-Rate Option" is a rate of interest per annum (based on a year of 360 days and actual days elapsed) equal to the LIBOR-Rate plus the Margin.

(b) Interest Rate After Maturity. After the principal amount of the Notes shall have become past due (by acceleration or past the stated maturity date except as renewed pursuant to Section 2.5(a) hereof), the Notes shall bear interest for each day until paid (before and after judgment) at the Default Rate.

2.5 LIBOR-Rate Funding Periods.

(a) At any time when the Borrower shall select or renew the LIBOR-Rate Option, the Borrower shall fix either a thirty (30) day (One Month), sixty (60) day (Two Months), or ninety (90) day (Three Months) period during which such LIBOR-Rate shall apply (a "LIBOR-Rate Funding Period"); provided, that each such LIBOR-Rate Funding Period shall begin on a London Business Day.

(b) At the end of each applicable LIBOR-Rate Funding Period, the Borrower may either (i) repay all outstanding balances of principal and interest for which the LIBOR-Rate Option has been selected in accordance herewith or (ii) select the same or different LIBOR-Rate Funding Period to apply to not less than $500,000.00 (or in $100,000.00 increments in excess thereof) of the outstanding principal balance of the applicable Note.

(c) During any applicable LIBOR-Rate Funding Period, unless otherwise provided by the terms and provisions of this Agreement, the Borrower may not prepay (in part or in whole) the outstanding principal balance of the applicable Note evidenced by such LIBOR-Rate Funding Period amount, and the LIBOR-Rate Funding Period shall continue until the end of the applicable LIBOR-Rate Funding Period. At any one time during the term of the Commitments, not more than three (3) tranches of LIBOR-Rate Funding Periods may be in effect.

2.6 LIBOR-Rate Unascertainable; Impracticability. If

(a) on any date on which a LIBOR-Rate would otherwise be set, the Bank shall have in good faith determined (which determination shall be conclusive) that:

(i) adequate and reasonable means do not exist for ascertaining such LIBOR-Rate, or

(ii) the effective cost to the Bank for funding a LIBOR-Rate Funding Period shall exceed the LIBOR-Rate applicable to such LIBOR-Rate Funding Period, or

(b) at any time the Bank shall have determined in good faith (which determination shall be conclusive) that the making, maintenance or funding of the LIBOR-Rate has been made unlawful by compliance

by the Bank in good faith with any Law or guideline or interpretation or administration thereof by any Tribunal charged with the interpretation or administration thereof or with any request or directive of any such Tribunal (whether or not having the force of law);

then, and in any such event, the Bank shall notify the Borrower of such determination. Upon the effective date as shall be specified in such notice (which shall not be earlier than the date such notice is given), the obligation of the Bank to allow the Borrower to select, convert to or renew the LIBOR-Rate Option, as the case may be, shall be suspended until the Bank shall have subsequently notified the Borrower of the Bank's determination in good faith (which determination shall be conclusive) that the circumstances giving rise to such previous determination no longer exists. At the time the Bank makes a determination under of this Section 2.6(b), such notification by the Bank to the Borrower shall be deemed to provide for conversion of then existing LIBOR-Rate Option amounts to the Base Rate on the effective date specified in such notification. Commencing on such effective date, the Bank shall utilize the Base Rate. If the Borrower has previously notified the Bank of the selection of one or more LIBOR-Rate Funding Periods that have not yet gone into effect as of the foregoing notification date, such notification shall be deemed to provide for conversion to the Base Rate instead of the LIBOR-Rate Option.

2.7 Optional Conversion or Renewal.

(a) LIBOR-Rate Option. If the LIBOR-Rate Option is in effect, then, with at least two (2) Business Days' notice to the Bank prior to the expiration of any LIBOR-Rate Funding Period, the Borrower may renew the LIBOR-Rate (for the same or to a different LIBOR-Rate Funding Period). Whenever the Borrower desires to convert or renew any LIBOR-Rate Funding Period, the Borrower shall provide the Bank, at least two (2) Business Days prior to the date of the proposed conversion or renewal, with the following information:

(i) the date, which shall be a Business Day, on which the proposed conversion or renewal is to be made;

(ii) the then-applicable LIBOR-Rate Funding Period selected; and

(iii) a fully completed LIBOR Option Rate Sheet, in the form of Exhibit B attached hereto, duly executed by an Authorized Signatory.

Notice having been so provided, after the date specified in such notice (telephonic or where applicable, in writing) interest shall be calculated upon the entire principal amount of the Loan as so converted or renewed. Interest on the principal amount of the Loan converted or renewed (automatically or otherwise) shall be due and payable in accordance with the provisions of the applicable Note.

(b) Failure to Renew. Absent due notice from the Borrower of renewal in the circumstances described in Section 2.7(a) hereof, the LIBOR-Rate Funding Period for which such notice is not received shall be automatically renewed to the LIBOR-Rate Option applicable to the applicable Note on the last day of the applicable expiring LIBOR-Rate Funding Period in accordance with the terms and provisions hereof for the same LIBOR-Rate Funding Period.

2.8 Proceeds of Sale of Mortgaged Property. In the event any interest of the Borrower in any of the Mortgaged Property is sold, the sales proceeds of any such sale shall be applied initially to the outstanding principal balance of the Bridge Note, then to the outstanding principal balance of the Line Note, then to accrued interest under the Bridge Note, then to accrued interest under the Line Note; provided, however, no such sale shall occur without the prior written consent of the Bank.

2.9 Letters of Credit. Upon the Borrower's application from time to time by use of the Bank's standard form Letter of Credit Application Agreement and subject to the terms and provisions therein and herein set forth, the Bank agrees to issue standby letters of credit ("Letters of Credit") on behalf of the Borrower under the Line Commitment; provided that (i) any Letters of Credit issued on behalf of or on the account of the Borrower with an expiry date later

than March 31, 2007, will, at the Bank's sole option, be fully secured and collateralized by cash or cash equivalent acceptable to the Bank in its sole discretion and held thereby from and after maturity on March 31, 2007, until expiration or cancellation of such Letter(s) of Credit or payment of all draws thereon on demand of the Bank, (ii) no Letter of Credit will be issued on behalf of or for the account of the Borrower if at the time of issuance the outstanding amount of all unpaid Line Loans (including the aggregate outstanding and unfunded amount of unexpired Letters of Credit then existing) under the Line Commitment as evidenced by the Line Note plus the maximum amount of such Letter of Credit then being requested would exceed the Collateral Borrowing Base, (iii) the amount of all issued and outstanding Letters of Credit on behalf of or for the account of the Borrower shall not exceed, at any time, $1,000,000 in the aggregate, and (iv) each Letter of Credit issued on the Borrower's behalf shall contain language acceptable to the Bank pertaining to automatic cancellation/reduction, as applicable. If any Letter of Credit is drawn upon at any time, each amount drawn, whether a full or partial draw thereon, shall be paid by wire transfer and reflected by the Bank as an advance on the Line Note effective as of the date of the Bank's honoring the sight draft and such Letter of Credit shall be canceled immediately upon such wire transfer. In consideration of the Bank's agreement to issue Letters of Credit hereunder, the Borrower agrees to pay to the Bank letter of credit fees equal to one-half of one percent (0.50%) per annum on the face amount of each Letter of Credit plus normal processing fees (subject to a minimum fee of $250.00 for each Letter of Credit), which such fees shall be due and payable to the Bank at the time of issuance of each applicable Letter of Credit and shall be paid by debit in such amount to the Borrower's deposit account with the Bank, not sooner than three (3) days following the mailing by regular mail of notice of such intended debit.

2.10 Unused Fees. The Borrower shall pay to the Bank on the Line Loan a non-usage fee in an amount equal to one-eighth of one percent (12.50 basis points) per annum of the amount by which the lesser of (i) the then applicable Collateral Borrowing Base (initially $7,000,000) or (ii) the then applicable and effective Line Commitment amount (currently set at $7,000,000) exceeds the sum of the average daily amount of the outstanding principal balance of the Line Note from the Closing Date (including the aggregate unfunded amount of all outstanding Letters of Credit issued hereunder). Such non-usage fee shall be due quarterly in arrears as the same accrues payable promptly upon receipt by the Borrower of notice from the Bank of the amount thereof.

2.11 Use of Advances. Each Line Advance requested by the Borrower from the Bank shall be used by the Borrower solely for the limited purpose of financing (i) the Borrower's acquisition of Proved Developed Producing Reserves and/or (ii) the issuance of standby letters of credit in the operation of the Borrower's oil and gas business. The Bridge Advance requested by the Borrower from the Bank shall be used by the Borrower solely for the limited purpose of financing the East Hobbs Acquisition and may not be reborrowed after payment or prepayment thereof.

2.12 Bridge Note Mandatory Prepayment. Within twenty (20) days of the Borrower's successful closing and funding of its equity public offering (Form SB-2 registration statement as filed with the Securities and Exchange Commission on March 18, 2004), the Borrower shall prepay in its entirety the outstanding principal balance of the Bridge Note.

ARTICLE III

COLLATERAL BORROWING BASE

3.1 Semiannual Engineering Reports.

(a) The Borrower shall deliver to the Bank at the Borrower's cost by each February 28 and August 31, commencing August 31, 2004, an oil and gas reserve/reserve economics report in form, substance and scope acceptable to the Bank (each an "Engineering Report") as is necessary or appropriate for the Bank's engineers or any other independent petroleum engineer acceptable to the Bank to compile and prepare by each March 31 and September 30 (commencing September 30, 2004) an engineering report in form and substance satisfactory to the Bank, evaluating the proven producing oil and gas reserves attributable to the Borrower's aggregate interest in the Mortgaged Property (as defined in subsection (b) below), together with the expenses attributable thereto. Each Engineering Report delivered by the Borrower to the Bank by February 28 of each year shall be prepared by an independent petroleum engineer selected by the Borrower and acceptable to the Bank and in

form, scope and substance acceptable to the Bank, the cost of which shall be borne solely by the Borrower. Each Engineering Report delivered by the Borrower to the Bank by August 31 of each year may, at the Borrower's election, be prepared internally from data furnished by the Borrower. Each Engineering Report furnished to the Bank by or on behalf of the Borrower shall be accompanied by such other information as shall be requested by the Bank in order for it to make its independent determination of the Collateral Borrowing Base, and by a certificate of the Borrower certifying that the Borrower has good and indefeasible title to the Mortgaged Property valued and that payments are being received from purchasers of production with respect to said interests except for payments suspended for valid reasons. At any time after thirty (30) days of the receipt of such Engineering Report and in no event later than each March 31 and September 30 (commencing September 30, 2004,) (each being a "Redetermination Date") and such other time or times as the Bank, at the Borrower's written request, may agree in writing, in its sole option and discretion, the Bank shall (i) make a determination of the present worth pursuant to the Bank's independent engineering analysis, using such pricing and discount factors (calculated on the basis of PW10 [present worth, discounted ten percent per annum]) as it deems appropriate pursuant to the Bank's then applicable energy lending policies, procedures and pricing parameters, of the future net revenue estimated by the Bank to be received by the Borrower from production from the Mortgaged Property so evaluated in accordance with the Bank's then applicable lending criteria; and (ii) establish and report such evaluation by the Bank of such evaluated oil and gas properties after the most recent Redetermination Date to the then current date as the "Collateral Borrowing Base." The good faith determinations of Bank in such respects shall be conclusive. From the Closing Date until the September 30, 2004, Redetermination Date, the Collateral Borrowing Base, shall be limited to $10,400,000.00, unless otherwise agreed to in writing by the Bank in accordance with the redetermination provisions hereof. "PW10", as used herein, shall mean the discounted present worth factor of ten percent (10%) per annum utilized in determining the present worth value of the Mortgaged Property pursuant to this Section 3.1(a).

(b) The term "Mortgaged Property" shall refer only to such properties covered by the Mortgage (or a supplemental mortgage or deed of trust, duly executed, acknowledged and delivered by the Borrower to the Bank in form satisfactory to counsel for the Bank) and which properties are, at the time:

(i) particularly and adequately described under the Mortgage or other supplemental mortgage or deed of trust;

(ii) completed or developed (in the case of oil and gas leases) to the extent that value is being assigned to them by the Bank in connection with such evaluation and the Bank has determined that such properties are capable of producing oil or gas in commercial quantities; and

(iii) approved as to title to the satisfaction of the Bank.

(c) The Borrower agrees that the Bank shall be entitled at all times to have the "Mortgaged Property," as encumbered by the Mortgage or supplemental mortgages, or deeds of trust constitute an aggregate value equal to a percentage (determined from time to time by the Bank in its discretion and initially set at eighty percent (80%)) of the aggregate value of the Borrower's Proved Developed Producing Reserves. For the purpose of determining the Collateral Borrowing Base and compliance herewith, the term "Proved Developed Producing Reserves" (as defined in Article I hereof), in addition to properties that qualify as "Mortgaged Property" pursuant to the criteria hereof and of subsection 3.1(b) above, shall refer only to such other oil and gas mining, mineral and/or leasehold working interests of the Borrower, if any, that satisfy the criteria of clause (iii) of subsection 3.1(b) above in all respects.

(d) The initial Collateral Borrowing Base ($10,400,000.00) shall remain in effect until otherwise changed by written agreement between the Borrower and the Bank or as adjusted by the Bank pursuant to the redetermination procedures established herein.

(f) The Borrower agrees that the Bank may, in its sole discretion and in connection with any Collateral Borrower Base redetermination, modify, amend, add or delete any financial covenant(s) effective as of such Redetermination Date.

3.2 Additional Engineering Reports. In connection with any Line Advance requested by the Borrower from the Bank used or to be used for the acquisition of substantial Proved Developed Producing Reserves, the Bank, in its sole discretion, may require the Borrower to deliver to the Bank, at the Borrower's expense, an Engineering Report prepared by an independent petroleum engineer selected by the Borrower and acceptable to the Bank, which such Engineering Report shall be in form, scope and substance acceptable to the Bank with the cost thereof being borne solely by the Borrower.

3.3 Collateral Deficiency. Should the aggregate amount of all Line Advances made and unfunded Letters of Credit issued under the Line Commitment at any time prior to maturity of the Line Note be greater than the Collateral Borrowing Base in effect at such time, the Bank may notify the Borrower in writing of the deficiency and, at the Bank's election, require the Borrower to:

(a) Make a prepayment upon the Line Note in an amount sufficient to reduce the aggregate amount of all Line Advances made under the Line Commitment to an amount equal to or less than the amount of the Collateral Borrowing Base; or

(b) Make mandatory equal monthly principal prepayments on the Line Note due on the next six (6) successive monthly interest installment due dates on the Line Note equal in an aggregate amount that will reduce the outstanding principal balance of the Line Note to the projected Collateral Borrowing Base as of the next immediate semi-annual redetermination thereof in accordance with the provisions of Section 3.1(a) hereof; or

(c) Execute and deliver to the Bank one or more supplemental mortgages, deeds of trust, security agreements or pledges encumbering other properties or assets in form and substance satisfactory to the Bank and its counsel as additional security for the Line Note (and all other Indebtedness) to the extent such properties are acceptable to the Bank and of such value, as determined by the Bank, that the aggregate amount of all Line Advances made under the Line Note will not exceed the Collateral Borrowing Base in conformance with the Bank's then applicable energy lending and engineering/evaluation policies and procedures.

If the Bank shall have elected to require a prepayment on the Line Note under Section 3.3(a) hereof, such prepayment shall be due within fifteen (15) days after the Bank shall have notified the Borrower of such election, and the prepayment shall be applied at the Bank's option, to the principal payments of the Line Note in inverse order of maturity. If the Bank shall elect to require execution and delivery one or more supplemental oil and gas mortgages and deeds of trust to the Bank under Section 3.3(c) hereof, the Borrower shall provide the Bank with descriptions of the additional properties to be mortgaged (together with any title opinions, current valuations and engineering reports applicable thereto which may be requested by the Bank) at the time of the Borrower's notice of such election and shall execute, acknowledge and deliver to the Bank the appropriate supplemental mortgages and deeds of trust within ten (10) days after such collateral documents shall be tendered to the Borrower by the Bank for execution thereby, all in compliance with the provisions of clauses (i), (ii) and (iii) of subsection 3.1(b) above.

ARTICLE IV

SECURITY

4.1 Collateral. The repayment of the Indebtedness shall be secured by a first and prior mortgage lien and security interest in and to the Mortgaged Property, pursuant to the terms of that certain Mortgage, Deed of Trust, Security Agreement, Financing Statement and Assignment (with Power of Sale) dated as of even date herewith (the "Mortgage"), together with all proceeds and products of the items or types of collateral described in this Article IV including without limitation, general intangibles, payment intangibles, supporting obligations, insurance proceeds and all cash, money, certificates of deposit, deposits and deposit or demand accounts of the Borrower at any time in the possession or control of the Bank (the collateral described herein and in the Security Instruments being referred to as the "Collateral").

4.2

Additional Properties. In order to satisfy the Bank's minimum percentage of Proved Developed Producing Reserves policy described in subsection 3.1(c) above (initially 80%), the Bank has the right, in its sole discretion, to elect to encumber such minimum percentage of the Borrower's oil and gas reserves as Collateral for the Indebtedness pursuant to such supplemental or additional mortgages, deeds of trusts or security agreements covering such additional properties in form and substance satisfactory to the Bank and its counsel and in full compliance with the criteria of clauses (i), (ii) and (iii) of subsection 3.1(b) above as additional security for the Line Note and the Indebtedness. In any event, Bank shall have the right to a first mortgage lien position on any and all producing oil and/or gas well(s) or properties of whatever type of the Borrower that have been evaluated for purposes of determining the Collateral Borrowing Base, even though such well(s) or properties do not constitute Collateral or Proved Developed Producing Reserves as of the date of this Agreement. Such first mortgage lien in favor of the Bank against any such future producing well shall comply with the provisions of Section 3.1(b) hereof. All of such additional properties will be deemed part and parcel of the Collateral constituting security for the repayment of the Indebtedness.

ARTICLE V

CONDITIONS PRECEDENT TO LOANS

5.1 Conditions Precedent. The obligation of the Bank to make the Loans is subject to the satisfaction of all of the following conditions (in addition to the other terms and conditions set forth herein):

(a) No Default. There shall exist no Event of Default or Default on the Closing Date.

(b) Representations and Warranties. The representations, warranties and covenants set forth in Article VII shall be true and correct on and as of the Closing Date and the Closing Date, respectively, with the same effect as though made on and as of the Closing Date and the Closing Date, respectively.

(c) Certificates. The Borrower shall have delivered to the Bank a Certificate, dated as of the Closing Date, and signed by the Secretary or Treasurer and Chief Financial Officer of the Borrower certifying (i) to the matters covered by the conditions specified in subsections (a) and (b) of this Section 5.1, (ii) that the Borrower has performed and complied with all agreements and conditions required to be performed or complied with by it prior to or on the Closing Date, (iii) to the name and signature of the officers of the Borrower authorized to execute and deliver the Loan Documents and any other documents, certificates or writings and to borrow under this Agreement, and (iv) to such other matters in connection with this Agreement which the Bank shall determine to be advisable. The trustees of the Rochford Trust shall have delivered to the Bank such trust closing certificate as deemed necessary or appropriate by the Bank in connection with its issuance of its instrument of Guaranty. The Bank may conclusively rely on such Certificates until it receives notice in writing to the contrary.

(d) Proceedings. On or before the Closing Date, all corporate proceedings of the Borrower shall be taken in connection with the transactions contemplated by the Loan Documents and shall be satisfactory in form and substance to the Bank and its counsel. The Bank shall have received certified copies, in form and substance satisfactory to the Bank and its counsel, of the Articles of Incorporation and Bylaws of the Borrower, and a certificate of the Borrower authorizing the execution and delivery of the Loan Documents, the borrowings under this Agreement, and the granting of the security interests in the Collateral pursuant to the Security Instruments, to secure the payment of the Indebtedness.

(e) Loan Documents/Security Instruments. The Borrower shall have delivered to the Bank this Agreement and the Mortgage, each appropriately executed by the appropriate parties and, where applicable, acknowledged to the satisfaction of the Bank and dated as of the Closing Date, together with such financing statements, transfer orders, letters in lieu and other documents as shall be necessary and appropriate to perfect the Bank's mortgage liens and security interests in the Collateral covered by said Security Instruments. The Borrower shall have caused the holders of debt evidenced by the Subordinate Notes and the liens securing such debt, if any, required by Section 6.25 hereof to be subordinated to the Indebtedness and the Security Instruments to have delivered to the Bank such subordination agreements and other instruments deemed necessary or

appropriate by the Bank to effect such debt and lien subordination acceptable to the Bank as required by Section 6.25 hereof.

(f) Notes. The Borrower shall have delivered each of the Notes to the order of Bank, appropriately executed.

(g) Guaranties. Each of the Guarantors shall have delivered to the Bank his absolute and unconditional guarantee of payment of the Bridge Loan as evidenced by the Bridge Note in form, scope and substance acceptable to the Bank.

(h) East Hobbs Acquisition. The Borrower shall have delivered to the Bank such documentation as available thereto in connection with the East Hobbs Acquisition from the Seller. Upon execution of the Purchase and Sale Agreement pertaining thereto with the Seller, the Borrower shall promptly deliver to the Bank a full and complete copy thereof, including all schedules, exhibits and addenda thereto, together with all ancillary or corollary documents executed or delivered in connection therewith. Upon consummation of the closing of such East Hobbs Acquisition, the Borrower shall promptly execute and deliver to the Bank (and the trustee therefore, as applicable) such supplemental and amending mortgage instruments, financing statements or amendments to existing financing statements, letters in lieu, authorization letters and other loan documents, certificates, title or property reports, title opinions and title updates as deemed necessary or appropriate by the Bank and its legal counsel.

(i) Due Diligence/Post Closing Title. The Borrower shall have provided the Bank with due diligence information and data concerning Borrower's title to the Mortgaged Property, including (without limitation) current landman's title reports issued and rendered to the Bank from a reputable landman acceptable to the Bank, reasonably current title opinions (unitization data, division orders, division order title opinions, supplemental or updated title reports or title opinions or otherwise) and evidence payment history on wells from the purchasers of production from the Mortgaged Property in form, scope, coverage and substance as reasonably deemed necessary or appropriate by the Bank, and such other prudent title searches, data and information, including without limitation, UCC searches, tax, judgment lien and other property searches or assurances as reasonably deemed appropriate by the Bank and otherwise in compliance with customary and prudent industry standards and practices. The Bank may elect, in its discretion, to permit Borrower to satisfy all or designated portions of the due diligence and title requirements of this clause (i) on a post closing basis (in which event the Bank's funding obligations shall be limited to $1,400,000 until full satisfaction of this clause (i) and provided that the failure of Borrower to satisfy such due diligence and title requirements in a manner acceptable to the Bank in its sole discretion within 30 days after the Closing Date shall constitute, without further notice from the Bank to the Borrower, an Event of Default pursuant to which the indebtedness evidenced by the Note shall be accelerated and automatically due and payable to the Bank and otherwise authorizing the Bank to exercise any and all rights and remedies available thereto under the Loan Documents (including without limitation, the Security Instruments) and at law or equity.

(j) Other Information. The Bank shall have received such other information, certificates, ratifications, consents, resolutions, documents and assurances as shall be reasonably requested by the Bank.

ARTICLE VI

COVENANTS

The Borrower covenants and agrees with the Bank that from the date hereof and so long as this Agreement is in effect (by extension, amendment or otherwise) and until payment in full of all Indebtedness and the performance of all other obligations of the Borrower under this Agreement, unless the Bank shall otherwise consent in writing:

6.1 Payment of Taxes and Claims. The Borrower will pay and discharge or cause to be paid and discharged all Taxes imposed upon the income or profits of the Borrower or upon the property, real, personal or mixed, or upon any part thereof, belonging to the Borrower before the same shall be in default, and all lawful claims for labor, rentals,

materials and supplies which, if unpaid, might become a Lien upon its property or any part thereof; provided however, that the Borrower shall not be required to pay and discharge or cause to be paid or discharged any such Tax, assessment or claim so long as the validity thereof shall be contested in good faith by appropriate proceedings, and adequate book reserves shall be established with respect thereto, and the Borrower shall pay such Tax, charge or claim before any property subject thereto shall become subject to execution.

6.2 Maintenance of Existence. The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its existence in good standing as a Nevada corporation and will continue to conduct and operate the Borrower's business substantially as being conducted and operated presently. The Borrower will become and remain qualified to conduct business in each jurisdiction where the nature of the business or ownership of property by the Borrower may require such qualification.

6.3 Preservation of Property. The Borrower will at all times maintain, preserve and protect (or use its best efforts to cause the operator to maintain, preserve and protect properties not operated by the Borrower) all of the Borrower's properties which are used or useful in the conduct of the Borrower's business whether owned in fee or otherwise, or leased, in good repair and operating condition; from time to time make, or cause to be made, all needful and proper repairs, renewals, replacements, betterments and improvements thereto so that the business carried on in connection therewith may be properly and advantageously conducted at all times; and comply with all material leases to which it is a party or under which it occupies property so as to prevent any material loss or forfeiture thereunder.

6.4 Casualty Insurance. The Borrower will keep or cause to be kept (whether the Borrower or, if applicable, the operator of such properties), adequately insured by financially sound and reputable insurers, the Borrower's property of a character usually insured by businesses engaged in the same or similar businesses, including the Collateral. Upon demand by the Bank any insurance policies covering the Collateral shall be endorsed to provide for payment of losses to the Bank as its interest may appear, to provide that such policies may not be canceled, reduced or affected in any manner for any reason without thirty (30) days prior notice to the Bank, and to provide for any other matters which the Bank may reasonably require; and such insurance shall be against fire, casualty and any other hazards normally insured against and shall be in the amount of the full value (less a reasonable deductible not to exceed amounts customary in the industry for similarly situated businesses and properties) of the property insured. The Borrower shall at all times maintain or, where applicable, cause the operators of such properties to maintain adequate insurance, by financially sound and reputable insurers, including without limitation, the following coverages: (i) insurance against damage to persons and property, including comprehensive general liability, worker's compensation and automobile liability, and (ii) insurance against sudden and accidental environmental and pollution hazards and accidents that may occur on the Mortgaged Property.

6.5 Compliance with Applicable Laws. The Borrower will comply with the requirements of all applicable Laws and orders of any Tribunal and obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of the Borrower's properties or to the conduct of the Borrower's business.

6.6 Environmental Covenants. Upon its receipt, the Borrower will immediately notify the Bank of and provide the Bank with copies of any notifications of discharges or releases or threatened releases or discharges of a Polluting Substance on, upon, into or from the Collateral which are given or required to be given by or on behalf of the Borrower to any federal, state or local Tribunal if any of the foregoing may materially and adversely affect the Borrower or any part of the Collateral, and such copies of notifications shall be delivered to the Bank at the same time as they are delivered to the Tribunal. The Borrower further agrees promptly to use its best efforts to require the operator to undertake and diligently pursue to completion any appropriate and legally required or authorized remedial containment and cleanup action in the event of any release or discharge or threatened release or discharge of a Polluting Substance on, upon, into or from the Collateral. At all times while owning and operating the Collateral, the Borrower will maintain and retain complete and accurate records of all releases, discharges or other disposal of Polluting Substances on, onto, into or from the Collateral, including, without limitation, records of the quantity and type of any Polluting Substances disposed of on or off the Collateral.

6.7 Environmental Indemnities. The Borrower hereby agrees to indemnify, defend and hold harmless the Bank and each of its officers, directors, employees, agents, consultants, attorneys, contractors and each of its affiliates,

successors or assigns, or transferees from and against, and reimburse said Persons in full with respect to, any and all loss, liability, damage, fines, penalties, costs and expenses, of every kind and character, including reasonable attorneys' fees and court costs, known or unknown, fixed or contingent, occasioned by or associated with any claims, demands, causes of action, suits and/or enforcement actions, including any administrative or judicial proceedings, and any remedial, removal or response actions ever asserted, threatened, instituted or requested by any Persons, including any Tribunal, arising out of or related to: (a) the breach of any representation or warranty of the Borrower contained in Section 7.6 set forth herein; (b) the failure of the Borrower to perform any of its covenants contained in Section 6.5 or 6.6 hereunder; (c) the ownership, construction, occupancy, operation, use of the Collateral prior to the earlier of the date on which (i) the Indebtedness and obligations secured hereby have been paid and performed in full and the Security Instruments have been released, or (ii) the Collateral has been sold by the Bank following the Bank's ownership of the Collateral by way of foreclosure of the Liens granted pursuant hereto, deed in lieu of such foreclosure or otherwise (the "Release Date"); provided, however, this indemnity shall not apply with respect to matters caused by or arising solely from the Bank's activities during any period of time the Bank acquires ownership of the Collateral.

The indemnities contained in this Section 6.7 apply, without limitation, to any violation on or before the Release Date of any Environmental Laws and any liability or obligation relating to the environmental conditions on, under or about the Collateral on or prior to the Release Date (including, without limitation: (a) the presence on, upon or in the Collateral or release, discharge or threatened release on, upon or from the Collateral of any Polluting Substances generated, used, stored, treated, disposed of or otherwise released prior to the Release Date, and (b) any and all damage to real or personal property or natural resources and/or harm or injury including wrongful death, to persons alleged to have resulted from such release of any Polluting Substances regardless of whether the act, omission, event or circumstances constituted a violation of any Environmental Law at the time of its existence or occurrence). The term "release" shall have the meaning specified in CERCLA/SARA and the terms "stored," "treated" and "disposed" shall have the meanings specified in RCRA/HSWA; provided, however, any broader meanings of such terms provided by applicable laws of the State of Oklahoma shall apply.

The provisions of this Section 6.7 shall be in addition to any other obligations and liabilities the Borrower may have to the Bank at common law and shall survive the Release Date and shall continue thereafter in full force and effect.

The Bank agrees that in the event that such claim, suit or enforcement action is asserted or threatened in writing or instituted against it or any of its officers, employers, agents or contractors or any such remedial, removal or response action is requested of it or any of its officers, employees, agents or contractors for which the Bank may desire indemnity or defense hereunder, the Bank shall give written notification thereof to the Borrower.

Notwithstanding anything to the contrary stated herein, the indemnities created by this Section 6.7 shall only apply to losses, liabilities, damages, fines, penalties, costs and expenses actually incurred by the Bank as a result of claims, demands, actions, suits or proceedings brought by Persons who are not the beneficiaries of any such indemnity. The Bank shall act as the exclusive agent for all indemnified Persons under this Section 6.7. With respect to any claims or demands made by such indemnified Persons, the Bank shall notify the Borrower within thirty (30) days after the Bank's receipt of a writing advising the Bank of such claim or demand. Such notice shall identify (i) when such claim or demand was first made, (ii) the identity of the Person making it, (iii) the indemnified Person and (iv) the substance of such claim or demand. Failure by the Bank to so notify the Borrower within said thirty (30) day period shall reduce the amount of the Borrower's obligations and liabilities under this Section 6.7 by an amount equal to any damages or losses suffered by the Borrower resulting from any prejudice caused the Borrower by such delay in notification from the Bank. Upon receipt of such notice, the Borrower shall have the exclusive right and obligation to contest, defend, negotiate or settle any such claim or demand through counsel of its own selection (but reasonably satisfactory to the Bank) and solely at the Borrower's own cost, risk and expense; provided, that the Bank, at its own cost and expense shall have the right to participate in any such contest, defense, negotiations or settlement. The settlement of any claim or demand hereunder by the Borrower may be made only upon the prior approval of the Bank of the terms of the settlement, which approval shall not be unreasonably withheld.

6.8 Financial Statements and Reports.

(a) Quarterly Operating Statements. The Borrower shall maintain a standard system of accounting and shall furnish to the Bank as soon as practicable after the end of each calendar quarter, commencing with the quarter ending March 31, 2004, and in any event within sixty (60) days after the end of each said calendar quarter, operating statements for the Borrower certified, on the Borrower's behalf, by the chief financial officer of the Borrower to have been prepared on a GAAP basis consistently applied and to fairly present the financial condition of the Borrower for such quarter period, and shall include at least a balance sheet as of the end of such fiscal quarter period, and a statement of income and a statement of cash flows for such fiscal quarter period, all in reasonable detail, setting forth, in each case, the comparative figures for the corresponding date or period from the operating statements for the immediately preceding fiscal quarter.

(b) Annual Financial Statements. As soon as practicable after the end of each fiscal year and in any event within one hundred twenty (120) days thereafter, the Borrower shall furnish to Bank the following financial statements:

(i) a balance sheet of the Borrower at the end of such fiscal year,

(ii) a statement of income of the Borrower for such fiscal year, and

(iii) a statement of cash flows of the Borrower for such fiscal year,

setting forth in each case in comparative form the figures for the previous fiscal year, if applicable, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an auditor's letter from a firm of independent, certified public accountants acceptable to the Bank. Upon receipt thereof, the Borrower shall also deliver to the Bank a copy of each audit report submitted to the Borrower by independent accountants in connection with any annual, special or other review or report made by them.

(c) Annual Engineering Report. In connection with each of the Collateral Borrowing Base semi-annual valuation and redeterminations made as of each March 31 (commencing March 31, 2005), the Borrower shall have furnished to the Bank a comprehensive engineering report of the Mortgaged Property encumbered by the Mortgage, prepared by a bona fide and reputable outside engineering firm reasonably acceptable to the Bank, which such report shall be effective as of a date no earlier than January 1 of such applicable calendar year in which it is to be submitted to the Bank. Such report shall be furnished in full to the Bank no later than February 28 of such applicable calendar year, commencing with February 28, 2005.

(d) No Material Misstatments/Financial Statement Reporting References to Credit Agreement. None of the information contained in any reports, financial statements (audited or otherwise), exhibits or schedules, taken as a whole, furnished by or on behalf of the Borrower will contain any material misstatement of fact or omit to state any material fact necessary to make the statement therein, in light of the circumstances under which they were, are or will be made, not materially misleading. Without limiting the foregoing, each financial statement and other reports (public or otherwise) referring to revolving line of credit facility established by this Credit Agreement shall accurately reflect that the Borrower's right to borrower under the Line Commitment is limited to an outstanding and unpaid principal amount not in excess of the maximum Line Commitment then available unless the Bank otherwise consents in writing to increase such Line Commitment. The current Line Commitment amount and current stipulated Collateral Borrowing Base amount is $10,400,000.00, subject to the Collateral Borrowing Base redetermination provisions of Article III hereof.

6.9 Notice of Default. Immediately upon the happening of any condition or event which constitutes an Event of Default or Default or any default or event of default under any other loan, mortgage, deed of trust, financing or security agreement, the Borrower will give the Bank a written notice thereof specifying the nature and period of existence thereof and what actions, if any, the Borrower is taking and proposes to take with respect thereto.

6.10 Notice of Litigation. Immediately upon becoming aware of the existence of any action, suit or proceeding at law or in equity before any Tribunal, an adverse outcome in which would (i) materially impair the ability of the Borrower to carry on its business substantially as now conducted, (ii) materially and adversely affect the condition

(financial or otherwise) of the Borrower, or (iii) result in monetary damages in excess of $100,000, the Borrower will give the Bank a written notice specifying the nature thereof and what actions, if any, the Borrower is taking and proposes to take with respect thereto.

6.11 Notice of Claimed Default. Immediately upon becoming aware that the holder of any note or any evidence of indebtedness or other security of the Borrower has given notice or taken any action with respect to a claimed default or event of default thereunder, the Borrower will give the Bank a written notice specifying the notice given or action taken by such holder and the nature of the claimed default or event of default thereunder and what actions, if any, the Borrower is taking and proposes to take with respect thereto.

6.12 Requested Information. With reasonable promptness, the Borrower will give the Bank such other data and information as from time to time may be reasonably requested by the Bank.

6.13 Inspection. The Borrower will keep complete and accurate books and records with respect to the Collateral and its other properties, business and operations and will permit employees and representatives of the Bank, upon reasonable notice, to audit, inspect and examine the same and to make copies thereof and extracts therefrom during normal business hours. All such records shall be at all times kept and maintained at the principal offices of the Borrower in Tulsa, Oklahoma. Upon any Default or Event of Default of the Borrower, it will surrender all of such records relating to the Collateral to the Bank upon receipt of any request therefor from the Bank.

6.14 Limitation on Liens. The Borrower will not create or suffer to exist any Lien upon any of its property or assets except (i) Liens in favor of the Bank securing the Indebtedness; (ii) Liens arising in the ordinary course of business for sums not due or sums being contested in good faith and by appropriate proceedings and not involving any deposits, advances, borrowed money or the deferred purchase price of property or services; and (iii) Liens expressly permitted to exist under the terms, conditions and limitations of this Agreement and any of the Security Instruments.

6.15 Disposition/Negative Pledge re Encumbrance of Collateral and Other Assets. The Borrower will not sell, mortgage, pledge or otherwise encumber any minerals, mineral interests or leaseholds subject to or covered by the Initial Engineering Report or any subsequent engineering report (whether in connection with the semi-annual borrowing base redeterminations pursuant to Section 3.1 or otherwise) without first obtaining the Bank's written consent thereto. The Borrower will provide the Bank with written notice of the sale, lease, transfer or other disposition of or mortgage, pledge, granting of a security interest in or encumbrance against any of the Borrower's tangible personal property or assets, subject, however, to the Borrower's right to sell up to $100,000 worth in the aggregate of its tangible personal properties or assets not constituting mineral, mineral interests or leaseholds subject to or covered by the Initial Engineering Report in the ordinary course of business during any calendar year without prior notice to the Bank. In no event shall the Borrower cause or permit the voluntary or involuntary pledge, mortgage or other encumbrance, attachment or levy of or against any of the properties or assets of whatsoever nature or type to any Person (financial institution or otherwise) without first obtaining the Bank's express written consent thereto. The Borrower shall have caused the Guarantors to covenant in favor of the Bank that none thereof will sell, transfer, assign, pledge, mortgage, grant a security interest in or otherwise encumber any of their respective shares of capital stock in the Borrower for so long and until the Bridge Loan is fully paid and the Bridge Commitment expires or is otherwise terminated or extinguished.

6.16 Other Agreements. The Borrower will not enter into or permit to exist any agreement (i) which would cause an Event of Default or a Default hereunder, or (ii) which contains any provision which would be violated or breached by the performance of the Borrower's obligations hereunder or under any of the other Loan Documents.

6.17 Limitation on Other Indebtedness. The Borrower will not create, incur, assume, become or be liable in any manner in respect of, or suffer to exist, any indebtedness whether evidenced by a note, bond, debenture, agreement, letter of credit or similar or other obligation, or accept any deposits or advances of any kind in excess of $100,000 in the aggregate during any fiscal year of the Borrower, except (i) trade payables and current indebtedness (other than for borrowed money) incurred in, and deposits and advances accepted in, the ordinary course of the Borrower's existing business, or (ii) the Indebtedness.

6.18 Articles of Incorporation/Bylaws and Assumed Names. The Borrower will not amend, alter, modify or restate its Articles of Incorporation or Bylaws in any way which would (i) change its legal name, re-incorporate in another jurisdiction, reorganize as a different legal entity or adopt a trade name for the Borrower; or (ii) in any manner adversely affect the Borrower's obligations or covenants to the Bank hereunder.

6.19 Ownership and Management. The Borrower shall not permit any material change in ownership or senior management thereof or any changes in any officer holding the office of President, Secretary or Treasurer of the Borrower.

6.20 Merger, Consolidation, Acquisition. The Borrower will not merge or consolidate with or into any other Person; or permit any other Person to consolidate with or merge into the Borrower; or adopt or effect any plan of reorganization, recapitalization, liquidation or dissolution; or acquire any properties or assets, other than in the ordinary course of business.

6.21 Contingent Liabilities; Advances. The Borrower will not, either directly or indirectly, (i) guarantee, become surety for, discount, endorse, agree (contingently or otherwise) to purchase, repurchase or otherwise acquire or supply or advance funds in respect of, or otherwise become or be contingently liable upon the indebtedness, obligation or liability of any Person, (ii) guarantee the payment of any dividends or other distributions, (iii) discount or sell with recourse or for less than the face value thereof, any of its notes receivable, accounts receivable or chattel paper; (iv) loan, agree to loan, or advance money to any Person in an aggregate amount of $50,000 or more at any time; or (v) enter into any agreement for the purchase or other acquisition of any goods, products, materials or supplies, or for the making of any shipments or for the payment of services, if in any such case payment therefor is to be made regardless of the non-delivery of such goods, products, materials or supplies or the non-furnishing of the transportation of services; provided, however that the foregoing shall not be applicable to endorsement of negotiable instruments presented to or deposited with a bank for collection or deposit in the ordinary course of business.

6.22 Current Ratio. The Borrower at all times will maintain a Current Ratio of not less than 1.0:1.0, calculated as of the last day of each fiscal quarter of the Borrower, commencing as of the last day of the fiscal quarter ending June 30, 2004.

6.23 Minimum Tangible Net Worth. The Borrower at all times will maintain a minimum Tangible Net Worth of $6,000,000, calculated as of the last day of each fiscal quarter of the Borrower, commencing as of the last day of the fiscal quarter ending June 30, 2004.

6.24 Minimum Interest Coverage Ratio. The Borrower at all times will maintain a minimum Interest Coverage Ratio of not less than 5.0:1.0, calculated as of the last day of each fiscal quarter of the Borrower, commencing as of the last day of the fiscal quarter ending June 30, 2004.

6.25 Subordination. Repayment of all loans or monetary advances made by any shareholder of the Borrower or any Person to the Borrower, whether evidenced by promissory notes or otherwise (including without limitation those certain promissory notes from the Borrower payable to the order of Stanley McCabe and Rochford Living Trust [collectively, the "Subordinate Notes"]), shall be expressly subordinated in all respects to the repayment of the indebtedness for so long as the Loans remain outstanding, such subordination being in form and content acceptable to the Bank and its legal counsel; *provided, however,* that so long as no Default or Event of Default shall have occurred hereunder, the Borrower may pay interest only as accrued on the Subordinate Notes.

6.26 Deposit Accounts. Within thirty (30) days of the Closing Date, the Borrower shall have opened a deposit account with the Bank to be maintained until the later of (i) any balance remains outstanding under the Notes or unexpired Letters of Credit remain outstanding or (ii) the termination of the Commitments.

6.27 Hedging. If and to the extent the Borrower elects to institute risk management, hedging or other similar forms of price protection for crude oil and natural gas volumes, such devices shall include a "price floor" or comparable financial hedge or risk management agreement acceptable to the Bank in all respects (including, without limitation, price and term), covering a maximum of 75% of the Borrower's aggregate existing oil and gas monthly production (as

forecast in the Bank's most recent semiannual engineering valuation pursuant to Article III hereof) for not more than two (2) years, and otherwise in form, content and substance acceptable to the Bank. The Bank, at its sole discretion, may require the Borrower to hedge a specified percentage of the Borrower's monthly production for a specified period of time, all as determined by the Bank in its good faith discretion. The Borrower shall not enter into any Prohibited Hedge Transaction, including, without limitation, any financial and physical hedge transactions affecting or covering the same volume of production for concurrent or overlapping periods of time. The applicable counterparty to any ISDA Agreement shall be acceptable to the Bank and approved thereby in writing.

6.28 Distributions. For so long as the Bridge Loan is outstanding and the Bridge Commitment remains in effect, the Borrower shall not declare or pay any dividend (cash, stock , in kind or otherwise) or other distributions to any direct or indirect beneficial owner (or affiliate thereof) of any interest in the Borrower; or purchase, redeem, retire or otherwise acquire for value any of the capital stock of the Borrower or equitable interests now or hereafter outstanding or make any distribution of assets to its shareholders as such whether in cash, assets or in obligations of the Borrower; or allocate or otherwise set apart any sum for the payment of any distribution on, for the purchase, redemption or retirement of any capital stock or equitable ownership interests.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES

To induce the Bank to enter into this Agreement and to make the Loans to the Borrower under the provisions hereof, and in consideration thereof, the Borrower represents, warrants and covenants as follows:

7.1 Organization and Qualification. The Borrower is duly organized, validly existing, and in good standing under the Laws of the State of Nevada as a corporation and is qualified to conduct business in each jurisdiction where the nature of its business or ownership of property by the Borrower requires such qualification.

7.2 Litigation. There is no action, suit, investigation or proceeding threatened or pending before any Tribunal against or affecting the Borrower or any properties or rights of the Borrower, which, if adversely determined, would result in a liability of greater than $100,000 or would otherwise result in any material adverse change in the business or condition, financial or otherwise, of the Borrower. The Borrower is not in default with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Tribunal.

7.3 Conflicting Agreements and Other Matters. The Borrower is not in default in the performance of any obligation, covenant, or condition in any agreement to which it is a party or by which it is bound. The Borrower is not a party to any contract or agreement or subject to any charter or other restriction which materially and adversely affects its business, property or assets, or financial condition. The Borrower is not a party to or otherwise subject to any contract or agreement which restricts or otherwise affects the right or ability of the Borrower to execute the Loan Documents or the performance of any of their respective terms. Neither the execution nor delivery of any of the Loan Documents, nor fulfillment of nor compliance with their respective terms and provisions will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien (except those created by the Loan Documents) upon any of the properties or assets of the Borrower pursuant to, or require any consent, approval or other action by or any notice to or filing with any Tribunal pursuant to any award of any arbitrator, or any agreement, instrument or Law to which the Borrower is subject.

7.4 Financial Statements. The financial statements of the Borrower furnished to the Bank have been prepared on an accrual basis in accordance with GAAP, show all material liabilities, direct and contingent, and fairly present the financial condition of the Borrower and the results of its operations for the periods then ended, and since such date there has been no material adverse change in the business, financial condition or operations of the Borrower.

7.5 Title to Properties; Authority. The Borrower has full power, authority and legal right to own and operate the properties which it now owns and operates, and to carry on the lines of business in which it is now engaged, and has good and marketable title to the Mortgaged Property subject to no Lien of any kind except Liens permitted by this Agreement. The Borrower has full power, authority and legal right to execute and deliver and to perform and observe

the provisions of this Agreement and the other Loan Documents. The Borrower further represents to the Bank that any and all after acquired interest in any one or more of the Mortgaged Property being concurrently or subsequently assigned of record to the Borrower is and shall be deemed encumbered by the Mortgage in all respects. Stanley McCabe, as Secretary and Treasurer of the Borrower, has all necessary authority and consent of the board of directors of the Borrower to execute and deliver this Agreement and the other Loan Documents and the Security Instruments to the Bank.

7.6 Environmental Representations. To the best of the Borrower's knowledge:

(a) The Borrower is not subject to any liability or obligation relating to (i) the environmental conditions on, under or about the Collateral, including, without limitation, the soil and ground water conditions at the location of any of the Borrower's properties, or (ii) the use, management, handling, transport, treatment, generation, storage, disposal, release or discharge of any Polluting Substance;

(b) The Borrower has not obtained and is not required to obtain or make application for any permits, licenses or similar authorizations to construct, occupy, operate or use any buildings, improvements, facilities, fixtures and equipment forming a part of the Collateral by reason of any Environmental Laws;

(c) The Borrower has taken all steps necessary to determine and has determined that no Polluting Substances have been disposed of or otherwise released on, onto, into, or from the Collateral (the term "release" shall have the meanings specified in CERCLA/SARA, and the term "disposal" or "disposed" shall have the meanings specified in RCRA/HSWA; provided, in the event either CERCLA/SARA or RCRA/HSWA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment and provided further, to the extent that the laws of any State or Tribunal establish a meaning for "release," "disposal" or "disposed" which is broader than that specified in CERCLA/SARA, RCRA/HSWA or other Environmental Laws, such broader meaning shall apply);

(d) There are no PCB's or asbestos-containing materials, whether in the nature of thermal insulation products such as pipe boiler or breech coverings, wraps or blankets or sprayed-on or troweled-on products in, on or upon the Collateral; and

(e) There is no urea formaldehyde foam insulation ("UFFI") in, on or upon the Collateral.

7.7 Oil and Gas Contracts. To the best of the Borrower's knowledge, all contracts, agreements and leases related to any of the oil and gas mining, mineral or leasehold properties and all contracts, agreements, instruments and leases to which the Borrower is a party, are valid and effective in accordance with their respective terms, and all agreements included in the oil and gas mining, mineral or leasehold properties in the nature of oil and/or gas purchase agreements, and oil and/or gas sale agreements are in full force and effect and are valid and legally binding obligations of the parties thereto and all payments due thereunder have been made, except for those suspended for reasonable cause in the ordinary course of business; and, there is not under any such contract, agreement or lease any existing default by any party thereto or any event which, with notice or lapse of time, or both, would constitute such default, other than minor defaults which, in the aggregate, would not result in losses or damages of more than $50,000 to the Borrower.

7.8 Natural Gas Policy Act and Natural Gas Act Compliance. To the best of the Borrower's knowledge, all material filings and approvals under the Natural Gas Policy Act of 1978, as amended, and the Natural Gas Act, as amended, or with the Federal Energy Regulatory Commission (the "FERC") or required under any rules or regulations adopted by the FERC which are necessary for the operation of the Borrower's business or the Collateral in the manner in which they are presently being operated have been made and the terms of the agreements and contractual rights included in the Borrower's business or the Collateral do not conflict with or contravene any such Law, rule or regulation.

7.9 Take-or-Pay Obligations, Prepayments, BTU Adjustments and Balancing Problems. To the best of the Borrower's knowledge, after diligent inquiry, the Borrower has no take-or-pay obligation under any gas purchase agreement which would have a material adverse effect on the Borrower. The Borrower is not a party to any fixed price contract or nonmarket contract for the sale of oil or gas which would have a material adverse effect on the Borrower.

Neither the Borrower nor the Collateral is subject to requirements to make BTU adjustments or effect gas balancing in favor of third parties which would have a material adverse effect on the Borrower.

7.10 Purposes. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System) and no part of the proceeds of any borrowing hereunder will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock. If requested by the Bank, the Borrower will furnish to the Bank a statement in conformity with the requirements of Federal Reserve Form U-1, referred to in Regulation U, to the foregoing effect. Neither the Borrower nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Line Note to violate any regulation of the Board of Governors of the Federal Reserve System (including Regulations G, T, U and X) or to violate any Securities Laws, state or federal, in each case as in effect now or as the same may hereafter be in effect.

7.11 Compliance with Applicable Laws. The Borrower is in compliance with all Laws, ordinances, rules, regulations and other legal requirements applicable to it and the business conducted thereby, the violation of which could or would have a material adverse effect on its business condition, financial or otherwise.

7.12 Possession of Franchises, Licenses. The Borrower possesses all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, free from burdensome restrictions, that are necessary in any material respect for the ownership, maintenance and operation of its properties and assets, and the Borrower is not in violation of any thereof in any material respect.

7.13 Leases, Easements and Rights of Way. The Borrower enjoys peaceful and undisturbed possession of all leases, easements and rights of way necessary in any material respect for the operation of its properties and assets, none of which contains any unusual or burdensome provisions which might materially affect or impair the operation of such properties and assets. All such leases, easements and rights of way are valid and subsisting and are in full force and effect.

7.14 Taxes. The Borrower has filed all Federal, state and other income tax returns which are required to be filed and has paid all Taxes, as shown on said returns, and all Taxes due or payable without returns and all assessments received to the extent that such Taxes or assessments have become due. All Tax liabilities of the Borrower are adequately provided for on the books of the Borrower, including any interest or penalties. No income tax liability of a material nature has been asserted by taxing authorities for Taxes in excess of those already paid.

7.15 Disclosure. Neither this Agreement nor any other Loan Document or writing furnished to the Bank by or on behalf of the Borrower in connection herewith contains any untrue statement of a material fact nor do such Loan Documents and writings, taken as a whole, omit to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact known to the Borrower and not reflected in the financial statements provided to the Bank which materially adversely affects its assets or in the future may materially adversely affect the business, property, assets or financial condition of the Borrower which has not been set forth in this Agreement, in the Loan Documents or in other documents furnished to the Bank by or on behalf of the Borrower prior to the date hereof in connection with the transactions contemplated hereby.

7.16 Ownership of Mortgaged Property. The Borrower hereby represents, warrants and covenants that as of the Closing Date the Borrower will own the working interests, royalty interests and net revenue interests in the oil and gas leasehold estate for the Mortgaged Property covered by the Mortgage or as listed in the Initial Engineering Report, or both, as represented in writing to the Bank.

ARTICLE VIII

EVENTS OF DEFAULT

8.1

Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default (whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of Law or otherwise):

(a) The Borrower shall fail to make any monthly payment due on either Note, or fail to pay either Note within five (5) days after the same shall become due and payable (whether by extension, renewal, acceleration, maturity or otherwise); or

(b) Any representation or warranty of the Borrower made herein or in any writing furnished in connection with or pursuant to any of the Loan Documents shall have been false or misleading in any material respect on the date when made; or

(c) The Borrower shall fail to duly observe, perform or comply with any covenant, agreement or term (other than payment provisions which are governed by Section 8.1(a) hereof) contained in this Agreement or any of the Loan Documents and such default or breach shall have not been cured or remedied within the earlier of thirty (30) days after the Borrower shall know (or should have known) of its occurrence or twenty (20) days following receipt of notice thereof from the Bank; or

(d) The Borrower shall default in the payment of principal or of interest on any other obligation for money borrowed or received as an advance (or any obligation under any conditional sale or other title retention agreement, or any obligation issued or assumed as full or partial payment for property whether or not secured by purchase money Lien, or any obligation under notes payable or drafts accepted representing extensions of credit for amounts greater than $100,000) beyond any grace period provided with respect thereto, or shall default in the performance of any other material agreement, term or condition contained in any agreement under which such monetary obligation is created (or if any other default under any such agreement shall occur and be continuing beyond any period of grace provided with respect thereto) if the effect of such default is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause such obligation to become due prior to its date of maturity; or

(e) Any of the following: (i) the Borrower or either Guarantor shall be unable to pay its debts as they mature, or shall make an assignment for the benefit of creditors or admit in writing its inability to pay its debts generally as they become due or fail generally to pay its debts as they mature; or (ii) an order, judgment or decree is entered adjudicating the Borrower or either Guarantor insolvent or an order for relief under the United States Bankruptcy Code is entered with respect to the Borrower or either Guarantor or (iii) the Borrower or either Guarantor shall petition or apply to any Tribunal for the appointment of a trustee, receiver, custodian or liquidator of the Borrower or either Guarantor or of any substantial part of the assets of the Borrower or either Guarantor or shall commence any proceedings relating to the Borrower or either Guarantor under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debts, dissolution, or liquidation Law of any jurisdiction, whether now or hereafter in effect; or (iv) any such petition or application shall be filed, or any such proceedings shall be commenced, against the Borrower or either Guarantor and the Borrower or either Guarantor by any act shall indicate its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree shall be entered appointing any such trustee, receiver, custodian or liquidator, or approving the petition in any such proceedings, and such order, judgment or decree shall remain unstayed and in effect for more than thirty (30) days; or (vi) the Borrower shall fail to make timely payment or deposit of any amount of tax required to be withheld by the Borrower and paid to or deposited to or to the credit of the United States of America pursuant to the provisions of the Internal Revenue Code of 1986, as amended, in respect of any and all wages and salaries paid to employees of the Borrower; or

(f) Any final judgment on the merits for the payment of money in an amount in excess of $100,000 shall be outstanding against the Borrower or either Guarantor and such judgment shall remain unstayed and in effect and unpaid for more than thirty (30) days.

8.2 Remedies. Upon the occurrence of any Event of Default referred to in Section 8.1(e) the Commitments shall immediately and automatically terminate, and the Notes and all other Indebtedness shall be immediately due and

payable, without notice of any kind. Upon the occurrence of any other Event of Default, and without prejudice to any right or remedy of the Bank under this Agreement or the Loan Documents or under applicable Law of under any other instrument or document delivered in connection herewith, the Bank may (i) declare the Commitments terminated or (ii) declare the Commitments terminated and declare the Notes and the other Indebtedness, or any part thereof, to be forthwith due and payable, whereupon the Notes and the other Indebtedness, or such portion as is designated by the Bank shall forthwith become due and payable, without presentment, demand, notice or protest of any kind, all of which are hereby expressly waived by the Borrower. No delay or omission on the part of the Bank in exercising any power or right hereunder or under the Notes, the Loan Documents or under applicable law shall impair such right or power or be construed to be a waiver of any default or any acquiescence therein, nor shall any single or partial exercise by the Bank of any such power or right preclude other or further exercise thereof or the exercise of any other such power or right by the Bank. In the event that all or part of the Indebtedness becomes or is declared to be forthwith due and payable as herein provided, the Bank shall have the right to set off the amount of all the Indebtedness of the Borrower owing to the Bank against, and shall have a lien upon and security interest in, all property of the Borrower in the Bank's possession at or subsequent to such default, regardless of the capacity in which the Bank possesses such property, including but not limited to any balance or share of any deposit, demand, collection or agency account. At any time after the occurrence of any Event of Default, the Bank may, at its option, cause an audit of any and/or all of the books, records and documents of the Borrower to be made by auditors satisfactory to the Bank at the expense of the Borrower. The Bank also shall have, and may exercise, each and every right and remedy granted to it for default under the terms of the other Loan Documents.

ARTICLE IX

MISCELLANEOUS

9.1 Notices. Unless otherwise provided herein, all notices, requests, consents and demands shall be in writing and shall be either hand-delivered (by courier or otherwise) or mailed by certified mail, postage prepaid, to the respective addresses specified below, or, as to any party, to such other address as may be designated by it in written notice to the other parties:

If to the Borrower, to:

Arena Resources, Inc.
4920 South Lewis, Suite 107
Tulsa, Oklahoma 74105
Attention: Mr. Stanley McCabe
Secretary/Treasurer

If to the Bank, to:

MidFirst Bank
321 South Boston Avenue, Suite 104
Tulsa, Oklahoma 74103
Attention: Mr. Christopher Cardoni
Assistant Vice President

All notices, requests, consents and demands hereunder will be effective when hand-delivered by the Bank to the applicable notice address of the Borrower or when mailed by certified mail, postage prepaid, addressed as aforesaid by either party hereto.

9.2 Place of Payment. All sums payable hereunder shall be paid in immediately available funds to the Bank, at its main Tulsa, Oklahoma banking offices at 321 South Boston Avenue, Suite 104, Tulsa, Oklahoma 74103, or at such other place as the Bank shall notify the Borrower in writing. If any interest, principal or other payment falls due on a date other than a Business Day, then (unless otherwise provided herein) such due date shall be extended to the

next succeeding Business Day, and such extension of time will in such case be included in computing interest, if any, in connection with such payment.

9.3 Survival of Agreements. All covenants, agreements, representations and warranties made herein shall survive the execution and the delivery of Loan Documents. All statements contained in any certificate or other instrument delivered by the Borrower hereunder shall be deemed to constitute representations and warranties by the Borrower.

9.4 Parties in Interest. All covenants, agreements and obligations contained in this Agreement shall bind and inure to the benefit of the respective successors and assigns of the parties hereto, except that the Borrower may not assign its rights or obligations hereunder without the prior written consent of the Bank.

9.5 Governing Law. This Agreement, the Notes and the Security Instruments shall be deemed to have been made or incurred under the Laws of the State of Oklahoma and shall be construed and enforced in accordance with and governed by the Laws of Oklahoma.

9.6 **SUBMISSION TO JURISDICTION. THE BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY OF THE LOCAL, STATE, AND FEDERAL COURTS LOCATED WITHIN TULSA COUNTY, OKLAHOMA AND WAIVES ANY OBJECTION WHICH THE BORROWER MAY HAVE BASED ON IMPROPER VENUE OR FORUM NON CONVENIENS TO THE CONDUCT OF ANY PROCEEDING IN ANY SUCH COURT AND WAIVES PERSONAL SERVICE OR ANY AND ALL PROCESS UPON IT, AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE BY MAIL OR MESSENGER DIRECTED TO IT AT THE ADDRESS SET FORTH IN SUBSECTION 9.1 HEREOF AND THAT SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED UPON THE EARLIER OF ACTUAL RECEIPT OR THREE (3) BUSINESS DAYS AFTER MAILED OR DELIVERED BY MESSENGER. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE BANK OR ANY HOLDER OF THE LINE NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE BORROWER IN ANY OTHER JURISDICTION.**

9.7 Maximum Interest Rate. Regardless of any provision herein, the Bank shall never be entitled to receive, collect or apply, as interest on the Indebtedness any amount in excess of the maximum rate of interest permitted to be charged by the Bank by applicable Law, and, in the event the Bank shall ever receive, collect or apply, as interest, any such excess, such amount which would be excessive interest shall be applied to other Indebtedness and then to the reduction of principal; and, if the other Indebtedness and principal are paid in full, then any remaining excess shall forthwith be paid to the Borrower.

9.8 No Waiver; Cumulative Remedies. No failure to exercise, and no delay in exercising, on the part of the Bank, any right, power or privilege hereunder or under any other Loan Document or applicable Law shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege of the Bank. The rights and remedies herein provided are cumulative and not exclusive of any other rights or remedies provided by any other instrument or by law. No amendment, modification or waiver of any provision of this Agreement or any other Loan Document shall be effective unless the same shall be in writing and signed by the Bank. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

9.9 Costs. The Borrower agrees to promptly pay to the Bank on demand all recording fees and filing costs and all reasonable attorneys fees and legal expenses incurred or accrued by the Bank in connection with the preparation, negotiation, closing, administration of any amendment, waiver, consent or modification to and of the Loan Documents and the filing and recording of any amendment or modification to and of the Security Instruments. In any action to enforce or construe the provisions of this Agreement or any of the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and all costs and expenses related thereto.

9.10

Headings. The article and section headings of this Agreement are for convenience of reference only and shall not constitute a part of the text hereof nor alter or otherwise affect the meaning hereof.

9.11 Severability. The unenforceability or invalidity as determined by a Tribunal of competent jurisdiction, of any provision or provisions of this Agreement shall not render unenforceable or invalid any other provision or provisions hereof.

9.12 Exceptions to Covenants. The Borrower shall not be deemed to be permitted to take any action or fail to take any action which is permitted as an exception to any of the covenants contained herein or which is within the permissible limits of any of the covenants contained herein if such action or omission would result in the breach of any other covenant contained herein.

9.13 **NO ORAL AGREEMENTS. THE LOAN DOCUMENTS EMBODY THE ENTIRE AGREEMENT AND UNDERSTANDING BETWEEN THE PARTIES AND SUPERSEDE ALL OTHER AGREEMENTS AND UNDERSTANDINGS BETWEEN SUCH PARTIES RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF, THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

9.14 **WAIVER OF JURY TRIAL. THE BORROWER FULLY, VOLUNTARILY, IRREVOCABLY, UNCONDITIONALLY AND EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY REGARDLESS OF THE PARTICULAR COURT OR FORUM WITH RESPECT TO ANY CLAIM, ACTION, COUNTERCLAIM OR DEFENSE WHATSOEVER OF THE BANK OR THE BORROWER, WHETHER OR NOT SUCH CLAIM, ACTION, COUNTERCLAIM OR DEFENSE RELATES OR PERTAINS TO THE NOTES, THE COMMITMENTS, THE MORTGAGE OR THIS LOAN AGREEMENT. THE BORROWER AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.**

9.15 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument. Any of the parties hereto may execute this Agreement by signing any such counterpart. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be as effective as delivery of a manually executed counterpart of this Agreement.

9.16 USA PATRIOT Act Notice. IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for the Borrower: When a borrower opens an account, the Bank will ask for the borrower's name, residential address, tax identification number, and other information that will allow the Bank to identify the borrower, including the borrower's date of birth if the borrower is an individual. The Bank may also ask, if the borrower is an individual, to see the borrower's driver's license or other identifying documents, and, if the borrower is not an individual, to see the borrower's legal organizational documents or other identifying documents. The Bank will verify and record the information the Bank obtains from the borrower pursuant to the USA PATRIOT Act, and will maintain and retain that record in accordance with the regulations promulgated under the USA PATRIOT Act.

IN WITNESS WHEREOF, the Borrower has caused this Agreement to be executed and delivered to the Bank in Tulsa, Oklahoma as of the day and year first above written by the undersigned duly authorized officer and manager thereof.

ARENA RESOURCES, INC.
a Nevada corporation

By_____
Stanley McCabe,
Secretary and Treasurer

"Borrower"

1343090.6

MIDFIRST BANK

By_____
Christopher Cardoni,
Assistant Vice President

"Bank"

13430906

EXHIBIT A

Line Note

EXHIBIT B

LIBOR Option Rate Sheet

EXHIBIT 10.3

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT, dated effective as of May 7, 2004 (the "First Amendment"), is made and entered into between ARENA RESOURCES, INC., a Nevada corporation (the "Borrower") and MIDFIRST BANK (the "Bank").

WITNESSETH:

WHEREAS, the Borrower and the Bank are parties to that certain Credit Agreement dated as of April 14, 2004 (the "Existing Credit Agreement"), pursuant to which the Bank established in favor of the Bank (i) a revolving line of credit (the "Line Commitment") and (ii) a bridge loan (the "Bridge Commitment"), each for the limited purpose(s) therein specified; and

WHEREAS, the Borrower successfully closed the acquisition of 82.24% of the working interests contemplated by the East Hobbs Acquisition and, accordingly, the Borrower and the Bank have agreed to modify (i) the Borrowing Base to $8,500,000, (ii) the Current Ratio financial covenant of Section 6.22 of the Existing Credit Agreement to exclude the Bridge Loan from the calculations thereof and (iii) extend the thirty (30) day due diligence period of Section 5.1(i) of the Existing Credit Agreement to June 15, 2004;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt of which is acknowledged by the parties hereto, the parties agree as follows:

1. The Collateral Borrowing Base is stipulated to be $8,500,000.00 effective as of the date of this First Amendment and all references in the Existing Credit Agreement to a Collateral Borrowing Base of "$10,400,000" or otherwise are deleted and replaced with references to an "$8,500,000.00" Collateral Borrowing Base for all purposes, including without limitation, the calculation of Section 2.10 (Unused Fees) of the Existing Credit Agreement.

2. Section 6.22 (Current Ratio) of the Existing Credit Agreement is amended to exclude from Current Liabilities the outstanding and unpaid balance of the Bridge Loan through and including the June 30, 2004 calculation thereof.

3. The thirty (30) day period of Section 5.1(i) of the Existing Credit Agreement is extended to June 15, 2004 in order to permit the necessary due diligence on the East Hobbs Acquisition (i.e., confirmation of the acquisition of the 82.24% interest, release of mortgage lines, etc.) and selective examination of various county records for mechanic's, tax, judgment and other encumbrances against the Borrower (as to existing properties) and the Borrower and its sellers (as to the East Hobbs Acquisition) as deemed necessary or appropriate by the Bank.

4. The remaining terms, provisions and conditions set forth in the Existing Credit Agreement shall remain in full force and effect. The Borrower restates, confirms and ratifies the warranties, covenants and representations set forth therein and further represent to the Bank that, as of the date hereof, no Default or Event of Default exists under the Credit Agreement. The Borrower further confirms, grants and re-grants, pledges and re-pledges to the Bank a continuing and continuous, first and prior mortgage lien against, security interest in and pledge of all of the items and types of Collateral more particularly described in Article III of the Existing Credit Agreement.

5. The Borrower agrees to pay to the Bank on demand all costs, fees and expenses (including without limitation reasonable attorneys fees and legal expenses) incurred or accrued by the Bank in connection with the

preparation, execution, closing, delivery, and administration of the Credit Agreement (including this First Amendment), and the other Loan Documents (including Security Instruments), or any amendment, waiver, consent or modification thereto or thereof, or any enforcement thereof. In any action to enforce or construe the provisions of the Credit Agreement or any of the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and all costs and expenses related thereto.

6. **THE BORROWER FULLY, VOLUNTARILY AND EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS CREDIT AGREEMENT, THE MORTGAGE, THE SECURITY AGREEMENT OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED (OR WHICH MAY IN THE FUTURE BE DELIVERED) IN CONNECTION HEREWITH OR ARISING FROM ANY BANKING RELATIONSHIP EXISTING IN CONNECTION WITH THIS CREDIT AGREEMENT. THE BORROWER AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.**

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be duly executed and delivered in Tulsa, Oklahoma, effective as of the day and year first above written.

ARENA RESOURCES, INC.,
a Nevada corporation

By _____
Stanley McCabe, Secretary and Treasurer

(the "Borrower")

MIDFIRST BANK

By _____
Christopher Cardoni, Assistant Vice President

"Bank"

1355851

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