IN THE UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION

IN RE PRIMERA ENERGY, LLC	**§**	**CASE NO. 15-61396-cag**
Debtor	**§**	**Chapter 11**
FREDERICK PATEK, ET AL.,	**§**	
	§	
PLAINTIFFS,	**§**	
V.	**§**	**Adversary Proceeding 15-05047-cag**
	§	
BRIAN K. ALFARO,	**§**	
PRIMERA ENERGY, LLC,	**§**	
ALFARO OIL AND GAS, LLC,	**§**	
ALFARO ENERGY, LLC,	**§**	
KING MINERALS, LLC,	**§**	
SILVER STAR RESOURCES, LLC,	**§**	
430 ASSETS, LLC, A MONTANA LLC	**§**	
KRISTI MICHELLE ALFARO;	**§**	
BRIAN AND KRISTI ALFARO AS	**§**	
TRUSTEES OF THE BRIAN AND	**§**	
KRISTI ALFARO LIVING TRUST; and	**§**	
ANA AND AVERY'S CANDY	**§**	
ISLAND, LLC.,	**§**	
	§	
DEFENDANTS.	**§**	

INITIAL REPORT OF COURT APPOINTED RECEIVER OF ALFARO OIL AND GAS, LLC, AND ALFARO ENERGY, LLC

TO THE HONORABLE UNITED STATES BANKRUPTCY COURT:

1. On June 2, 2015, Lamont A. Jefferson was appointed by the Honorable Judge Antonia Arteaga to serve as the receiver for Primera Energy, LLC, ("Primera") Alfaro Oil and Gas, LLC, ("Alfaro Oil and Gas") and Alfaro Energy, LLC, ("Alfaro Energy") in Cause No. 2015-CI-06691, *Frederick Patek, et al. v. Brian K. Alfaro, Primera Energy, LLC, Alfaro Oil and Gas, LLC and Alfaro Energy, LLC*, 288th Judicial District, Bexar County, Texas. On June 3, 2015, Primera Energy filed for Chapter 11 bankruptcy protection in *In re: Primera Energy, LLC*, Case No. 15-51396-cag, in the United States Bankruptcy Court for the Western District of Texas, San

Antonio Division. The remainder of the state court action was removed to the federal bankruptcy court in this adversary proceeding on June 19, 2015. (Doc. No. 54.) The following is a report on the activities of Receiver through the date of this report.

I. BACKGROUND

2. The plaintiffs in the litigation initiated in state court consist of investors in three specified well projects: "Montague Legacy," "Screaming Eagle," and "BlackHawk Buda." The plaintiffs generally complain that the defendants, under the direction of Mr. Brian Alfaro, defrauded them into making large investments in these well projects and then misappropriated those investments. In addition to monetary damages, the plaintiffs sought equitable relief, including an injunction, a forensic audit, and the appointment of a receiver over "the property and assets held and claimed by Defendants which contains, or is derived from, proceeds of their sale of securities or used in furtherance thereof, and to conduct the business affairs of Defendants with the powers."[1]

3. At the conclusion of a two day contested evidentiary hearing, I was appointed receiver over all of the defendant companies by the state district court judge. The order does not encompass Mr. Brian Alfaro's personal assets. The business entities involved in the receivership initially included Primera Energy, LLC, Alfaro Oil and Gas, LLC, and Alfaro Energy, LLC. From my review of the transcript, Mr. Alfaro was the sole principal whose conduct was in issue during the hearing. Based on the fact that a single receiver was appointed over all entities, I assume that Judge Arteaga considered the business entities (including Primera) to be part of essentially the same enterprise, ultimately controlled by defendant Alfaro. Shortly after the presiding judge

[1] Plaintiffs Verified First Amended Petition, Applications for appointment of Receiver, Appointment of Auditor, Temporary Restraining Order, Temporary and Permanent Injunctions, at

announced her decision, Mr. Alfaro caused the filing of a bankruptcy petition, but only on behalf of Primera Energy. The result is that the state court receivership remains in place, but the assets and business activities of Primera are not included in the receivership.

4. The state court plaintiffs responded to the bankruptcy filing with a joint motion for the appointment of a Chapter 11 Trustee. That motion was granted by order dated July 9, 2015 and Jason Searcy was appointed and is serving as trustee over the bankruptcy estate.

II. THE RECEIVERSHIP ESTATE

5. According to testimony from Mr. Alfaro, Alfaro Oil and Gas, LLC was not an operating company as of June 2015. The Texas Secretary of State's office reveals the following:

a) On March 5, 2008, Alfaro Oil and Gas, LLC was formed as a Texas limited liability company.

b) On December 5, 2011, Alfaro Energy, LLC was formed as a Texas limited liability company.

c) On December 20, 2012, Alfaro Oil and Gas, LLC filed an assumed name certificate to begin conducting business under the assumed name of Alfaro Energy, LLC.

d) On April 30, 2013, Alfaro Oil and Gas, LLC formally amended its name to Alfaro Energy, LLC.

e) On April 29, 2013, Alfaro Energy, LLC filed a certificate of termination, citing a voluntary decision to wind up the entity had been approved by the entity in accordance with Texas law.

6. Consequently, it appears that Alfaro Energy, LLC technically no longer exists, other than as a dba for Alfaro Oil and Gas, LLC. Alfaro Energy and Alfaro Oil and Gas will be referred to collectively as "Alfaro" or the "Alfaro Companies" in this report.

7. "Alfaro Energy" provided an "operating" balance sheet dated June 30, 2015. It is attached as Exhibit 1. Total assets reflected are $7,368.39, consisting of cash, a small investment in an office building and nominal investments in various ventures. The company has significant negative equity, explained primarily by a negative "intercompany equity exchange" amount.

8. Randolph Brooks Federal Credit Union provided bank accounts for Alfaro Energy LLC[2] that reveal the following funds on deposit. Those accounts are current frozen:

f)	Alfaro Energy, LLC, Checking, XXX-7051, May 31, 2015	$8,496.34
g)	Alfaro Energy, LLC, Savings, XXX-1209, May 31, 2015	$5.00
h)	Alfaro Energy, LLC, Checking, XXX-6991, May 31, 2015	$7,227.45
i)	Alfaro Energy, LLC, Savings, XXX-1151, May 31, 2015	$5.00
j)	Montague Legacy Well, Checking, XXX-7493, May 31, 2015	$24.86
k)	Montague Legacy Well, Savings, XXX-8981, May 31, 2015	$5.01
l)	Montague Legacy 2H Well, Checking, XXX-7523, May 31, 2015	$24.53
m)	Montague Legacy 2H Well, Savings, XXX-9027, May 31, 2015	$5.03
n)	Screaming Eagle 1H Well, Checking, XXX-7445, May 31, 2015	$24.09
o)	Screaming Eagle 1H Well, Savings, XXX-8927, May 31, 2015	$5.00

9. Alfaro Energy also provided a "revenue distribution" balance sheet dated June 30, 2015, attached as Exhibit 2. Total assets are $405,428.95 and appear to be composed primarily of receivables due from various related ventures. It reports total equity of $397,473.77.

10. At present, the largest asset owned by the Alfaro Companies is comprised of its share in a joint venture with Jordan Oil regarding oil and gas operations in East Moss Lake, Louisiana. Currently, those interests have a value of roughly $925,235.43. The undersigned is filing a separate motion with respect to that asset.

11. In addition, the Alfaro Companies have potential claims against its principal, Brian Alfaro, for what appear to consist generally of fraud in the sale of oil and gas interests, the misappropriation of substantial funds procured from such sales, and for breaches of fiduciary

[2] Source: Randolph Brooks Federal Credit Union supplied bank statements.

duties. At a minimum, the potential for pursuing such claims should be investigated by litigation counsel.

III. BUSINESS OPERATIONS OF THE ALFARO COMPANIES

12. The primary business operation of the Alfaro companies consists of "sales" in various oil and gas related investment ventures. Each venture is tied to an oil and gas "prospect" or well. The ventures identified to date can be described generally as follows:

- Alfaro Oil and Gas, LLC, Managing Venturer of The French Town 2-H Barnett Shale Prospect, a Texas Joint Venture (sold subscriptions);
- Alfaro Oil and Gas, LLC, Managing Venturer of The East Moss Lake 3-D/PSTM and LNG 3-d/PSTM Joint Venture, a Texas Joint Venture (sold subscriptions);
- Alfaro Oil and Gas, LLC, Managing Venturer of the Montague Legacy 2-H Well Joint Venture, a Texas Joint Venture (sold subscriptions);
- Alfaro Oil and Gas, LLC, Managing Venturer of the Montague Legacy Well Joint Venture, a Texas Joint Venture (sold subscriptions);
- Alfaro Oil and Gas, LLC, Managing Venturer of the North Cankton Prospect Joint Well Venture, a Texas partnership/Texas Joint Venture Partnership (sold subscriptions).

13. Brian Alfaro's sales activities have been the subject of at least five judicial proceedings, each of which was designed to assess the legitimacy of Alfaro's relationship with his customers. On each of those occasions, impartial tribunals have concluded that Alfaro's actions are suspect. Those adjudications include the following:

A. On April 25, 2012 the Financial Industry Regulatory Authority Office of Hearing Officers issued a 62-page Default Decision (the "FINRA Report"), by which Mr.

Alfaro was barred from associating with any member firm in any capacity based on the conclusion that he was "making material misrepresentations in connection with the sale of securities," that he was "misusing customer funds," and that he was selling unregistered securities. The FINRA complaint that led to that ruling alleged that Mr. Alfaro "continuously offered and sold fraudulent offerings to investors throughout the United States." The April 25, 2012 decision also expelled Mr. Alfaro's company, Pinnacle Partners Financial Corporation, from FINRA membership.

B. On December 2, 2013, Judge Sharon Darville Wilson of the 14th Judicial District Court of Calcasieu Parish, Louisiana issued an order appointing a special master over assets that were previously under the control of Mr. Alfaro. This appointment was based on allegations by the plaintiff, Jordan Oil, that Alfaro was victimizing his investors, that he was under investigation by various regulatory authorities, including the FBI, SEC, Alabama Securities Commission, and the Texas Securities Commission, and that Alfaro had breached his contracts with the operator of the Louisiana wells.

C. On April 28, 2015, Judge Larry Noll of the 408th Judicial District Court of Bexar County, Texas entered a Temporary Restraining Order that that prevented any defendant from "transferring money, assets, notes, equipment, fixtures, receivables," etc. to "Defendant Alfaro, directly or indirectly" with the sole exception of $5,000.

D. On June 3, 2015, Judge Antonia Arteaga of the 288th Judicial District Court of Bexar County, Texas, after a full evidentiary hearing, appointed the undersigned as

receiver over "all money, property, and assets of any kind held in the name of Defendants Primera Energy, LLC, Alfaro Oil and Gas, and Alfaro Energy, LLC" based on allegations that Alfaro was guilty of fraud, guilty of felony violations of the Securities Act, and generally "posed an immediate threat to the public."

E. On July 13, 2015, Judge Craig Gargotta entered an order appointing a Chapter 11 Trustee over the assets and operations of Primera Energy, LLC, a company controlled entirely by defendant Alfaro. That order was entered after a contested hearing based on allegations that the debtor's current management (Alfaro) was guilty of "fraud, dishonesty, incompetence, or gross mismanagement" of the affairs of the debtor.

14. Mr. Alfaro's business method consists of selling investment products that appear to convey interests in oil and gas operations, but that actually allow Mr. Alfaro to immediately spend investor funds with impunity on personal matters unrelated to oil and gas operations. This result is achieved by marketing to supposedly sophisticated investors, who are often elderly, and by convincing these investors to contribute large sums of money to purchase "interests" in oil and gas ventures. Alfaro and his salespeople then convince these investors to sign a package of highly complex and technical contractual instruments. Those documents include a "Confidential Private Placement Memorandum," a "Joint Venture Agreement," a "Subscription Agreement," a "Suitability Questionnaire," and a "Turnkey Agreement." This arrangement is similar to that described in the February 20, 2013 FINRA Report.

15. Based on my review of evidence from prior proceedings, discussions with counsel, and interviews with witnesses, it appears that the Alfaro Companies do not actually locate, drill, or operate their own oil and gas wells. Rather, these companies find potential oil and gas

"prospects" that have been previously identified by others. The prospects might be in the exploration, drilling, or production phase of development. The Alfaro Companies then form business associations to acquire a percentage interest in these prospects. They identify investors to join these associations from across the country through call center operations, and solicit and collect investment proceeds through direct sales. The Alfaro Companies denominate these business associations "joint ventures," with each investor being a joint venture participant (or general partner). Alfaro then designates itself as managing venturer for each prospect.

16. In fact, these business associations operate much more like limited partnerships. The language in the investment documents suggest that all business operations are to be managed by the Venturers collectively; however, the investors exercise no actual control over the operations of the enterprise. It would be difficult for them to do so, since they are strangers with respect to one another and there are no meetings of investors. Moreover, it does not appear that Alfaro provides investors with contact information for their peer investors. Rather, Alfaro is the sole point of contact for all communications with the investors and Alfaro manages all aspects of the relationships with oil and gas operators. Moreover, there is nothing in the solicitation documents that suggest that investors have any particular expertise in oil and gas investments or operations – rather they rely on the supposed expertise of Mr. Alfaro.

17. The turnkey contract is key in the operations of the Alfaro Companies. As the managing venturer, and on behalf of the "joint venture," Alfaro often enters into a contract with itself (Alfaro), as turnkey contractor, for the acquisition of the prospect. Each turnkey contract specifies a price, the validity of which is suspect.

18. I have reviewed two different forms for the Turnkey Agreement that Alfaro has entered into. One form of agreement relates to the East Moss Lake prospect, a copy of which is

attached as Exhibit 3. The other form of agreement relates to the Montague Legacy and Screaming Eagle prospects, a copy of which is attached as Exhibit 4. As some of the offering documents make plain, these turnkey contracts are expressly **not** the result of arm's length negotiations, rather the price is intentionally set so that there is a built in profit for Alfaro, regardless of whether the full subscription limit is sold, and even if the activity fails to generate any commercial oil and gas production. Alfaro apparently believes that its relationship with its investors allowed it to freely "self-deal" and that it had no responsibility to treat its investors fairly in signing these contracts, or in carrying out these agreements. These claims should be tested.

19. With respect to the East Moss Lake prospects, the Turnkey Agreement sets a price of $1,179,256. Exhibit 3. This number is described as "the sole sum which the Joint Venture will pay for the Prospect and Alfaro's obligation to acquire the Prospect and drill and complete the Prospect well(s)…." As in other investment plays, the Alfaro Companies were not operators with respect to the East Moss Lake prospect – the operator for those prospects was Jordan Oil Company, Inc. In fact, Alfaro had previously signed three separate agreements with Jordan Oil acknowledging that Jordan Oil would serve as the "operator" for the East Moss Lake wells. Exhibit 5. These agreements were not disclosed to investors at the time of the sale. The cost of the "Turnkey Agreement" should have been the cost to Alfaro of acquiring contractual rights in the oil and gas operations that Jordan Oil was operating.

20. In this regard, the source and validity of the Turnkey contract price of $1,179,256 are not at all clear. The 3 agreements that Alfaro signed with Jordan Oil each specify the cost for participation in the project. Exhibit 5. These agreements can be summarized as follows:

2/26/2009	East Moss Lake LNG	10% interest	Cost to Alfaro of $32,500
2/26/2009	East Moss Lake Attic	10% interest	Cost to Alfaro of $34,500
5/04/2010	East Airport Prospect	22% interest	Cost to Alfaro of $187,000
			Total cost: $254,000

Thus, the "cost" to acquire Alfaro's interest in all three wells was substantially less than the $1,179,256 that he committed the joint venture to under the Turnkey Agreement. Additionally, all of the subscription agreements that Alfaro sold relating to the East Moss Lake prospects were sold prior to the May 4, 2010 letter agreement, so that rather than $1,179,256, Alfaro's actual cost was a mere $67,000 when the Turnkey contract price was set.

21. There are many more discrepancies with regard to Alfaro's East Moss Lake operations. For instance, there are purportedly 18 investors in the project and each was supposed to purchase interests at a per unit cost of $78,880. In fact, the records reveal that investors participated with contributions of varying amounts, raising the question of whether Alfaro ignored the company's documents and instead accepted whatever amount an investor could be convinced to pay at the moment of the sale. In addition, in spite of the Turnkey Agreement, investors were sometimes called upon to contribute substantial funds on top of their initial investment, apparently on the threat that they could lose their initial contributions. The legitimacy of these additional solicitations is questionable.

22. Notably, none of the investors in the East Moss Lake projects are also plaintiffs in this adversary proceeding. However, Alfaro Oil and Gas is identified as managing venturer in the specific wells about which the current plaintiffs complain. Thus, it is necessary to examine the activities of the Alfaro Companies with respect to the other oil and gas projects that are involved in this suit. Those projects include "Bradford," "N. Muy Grande," the "Screaming Eagle" wells, the "French Town Acres" wells, the "Legacy" wells, and the "North Cankton" wells.

23. On those wells also, the Turnkey Agreements are key. Here again, the stated price of the Turnkey Agreement is suspect. At first glance, the price appears to be tied to the amount of funds that are collected in subscription sales, assuming the entire allotment were sold out. For

instance, with respect to the Screaming Eagle 1H Well Joint Venture, the Turnkey Contract lists the price as "up to $7,491,600.00." Exhibit 4. The number $7,491,600.00 is the equivalent of the entire subscription amount stated in the Private Place Memorandum ("PPM") assuming all interests are sold (75 Joint Venture Interests at $99,888 each). But the phrase "up to" begs the question of what happens if less than 100% of the Offering is sold. To obtain clarification, one might turn to the PPM, which provides that "The total cost to the Joint Venture for the Acquisition of the working interests in the Well…will be the Turnkey contract price of $7,491,600 *if all Interests are sold (*the "Turnkey Price")." This sentence again leaves open the question of the Turnkey contract price in the event that all interests are not sold. Moreover, the "Joint Venture Agreement," provides that funds may be used by the Venture for "Venture purposes" as soon as the Minimum Capitalization amount ($99,888.00) has been received and accepted.[3] Consequently, if only one interest is sold, the turnkey contract price would appear to be the amount collected from the sale of that one interest. Regardless, it seems clear from all of the documents that Alfaro may use the funds raised from the moment that Alfaro raises either 1 or 2 interests in the Venture.

24. By designating itself as the "managing venturer," Alfaro collects immediate management revenue for itself from each investment amount contributed. The private placement memorandum provides that Alfaro companies will receive 1% of the total interest in the business association. At the same time, Alfaro companies attempt to disclaim management authority by specifying in the investment package that investors retain significant control over the joint venture as a whole. The managing joint venturer designation entitles the companies to immediate revenue

[3] See Exhibit 6, Joint Venture Agreement at 7, ¶ 2.4.5. Compare to PPM, "Summary of Offering" section, at 12: "A capitalization amount representing two (2) Interests (the "Minimum Subscription Amount") must be obtained before capital of the Venture will be utilized by the Venture for any purpose."

(which the company can disperse at its discretion) and empowers the company with substantial management authority.

IV. RECOMMENDED PLAN FOR REMAINDER OF RECEIVERSHIP

25. The receiver recommends that the order appointing receiver (signed by the state court judge) be amended to allow for the following actions:

a. The transfer of all liquid funds to an account under the sole control of the Receiver;

b. The acceptance of the settlement of the Louisiana concursus litigation;

c. The retention of a forensic accounting firm to trace receipts and disbursements of funds into and out of the Alfaro Companies;

d. The retention of appropriate business litigation counsel to determine the viability pursuing claims against Brian Alfaro for various causes of action including fraud and breach of fiduciary;

Respectfully submitted,

JEFFERSON CANO
112 East Pecan Street, Suite 1650
San Antonio, Texas 78205
Telephone: (210) 988-1811
Telecopier: (210) 988-1811

/s/ *Lamont A. Jefferson*
LAMONT A. JEFFERSON
Texas State Bar No. 10607800
LJefferson@jeffersoncano.com
LISA S. BARKLEY
Texas State Bar No. 17851450
LBarkley@jeffersoncano.com

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Initial Report of Court Appointed Receiver was filed electronically with the Clerk of the Court using the ECF System for filing, and served electronically on all parties registered to receive electronic notice and via U.S. regular mail to all non-CM/ECF participants.

On this 22nd day of February, 2016.

/s/ *Lisa S. Barkley*
LISA S. BARKLEY

Alfaro Energy LLC

Balance Sheet
June 30, 2015

ASSETS:

Current Assets:	
Cash - RBFCU	82.56
Kercheville Savings	1,872.33
Petty Cash	400.00
Total Current Assets	2,354.89
Fixed Assets:	
Equipment	1,149.87
Furniture & Fixtures	6,987.63
Gathering Oaks Building	3,770.00
Gathering Oak Bldg Improvement	10,250.00
Accumulated Depreciation	(21,144.00)
Total Fixed Assets	1,013.50
Other Assets:	
Intestment in Normanna North	1,000.00
Investment in EML/LNG	1,000.00
Investment in Frenchtown Acres	1,000.00
Investment in North Cankton	1,000.00
Total Other Assets	4,000.00
Total Assets	$ 7,368.39

Exhibit 1

Alfaro Energy LLC
Balance Sheet
June 30, 2015

LIABILITIES & EQUITY

Liabilities:	
Accounts Payable	148,279.77
Total Liabilities	148,279.77
Equity:	
Intercompany Equity Exchange	(424,777.92)
Opening Equity Balance	(333,770.08)
Retained Earnings	615,014.73
Current Year Earnings	2,621.89
Total Equity	(140,911.38)
Total Liabilities & Equity	$ 7,368.39

Balance Sheet
June 30, 2015

ASSETS:

	Current Assets:	
1030	RBFCU - Revenue Distribution	(38,822.76)
1050	Purchaser Clearing	12,630.06
1200	Accounts Receivable	13,591.35
1201	A/R Deleted Interest	26,053.25
1215	A/R N MUY GRANDE 3-D	17,560.10
1220	A/R - French Town	18,465.74
1221	A/R - Normanna North	10,628.73
1222	A/R - Legacy #1H	249.40
1223	A/R - Montague Legacy 2H Well	15,554.78
1224	A/R - Screaming Eagle 1H	287,350.98
1299	Accounts Receivable Other	29,400.00
	Unbilled JIB	12,767.32
	Total Current Assets	405,428.95
	Fixed Assets:	
	Total Fixed Assets	0.00
	Other Assets:	
	Total Other Assets	0.00
	Total Assets	$ 405,428.95

Exhibit 2

Balance Sheet
June 30, 2015

LIABILITIES & EQUITY

	Liabilities:	
2010	Accounts Payable	7,066.21
	Revenue Payables	0.00
2220	Revenue Payable-Petty Suspense	888.97
	Total Liabilities	7,955.18
	Equity:	
3949	Retained Earnings	397,469.34
3950	Current Year Earnings	4.43
	Total Equity	397,473.77
	Total Liabilities & Equity	$ 405,428.95

TURNKEY AGREEMENT

This Turnkey Agreement has been entered into by and between The East Moss Lake 3-D/PSTM and LNG 3-D/PSTM Joint Venture, a Texas joint venture (the "Joint Venture"), and Alfaro Oil and Gas, LLC, a Texas limited liability company ("Alfaro").

Whereas, Alfaro has agreed, on behalf of the Joint Venture, to acquire up to 10% of the working interest 7% of the net revenue interest in two acquisition oil and gas prospects in Calcasieu Parish, Louisiana. (the "Prospect");

Now, therefore, in consideration of the mutual promises, representations and covenants more fully set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereto agree as follows:

Contemporaneously herewith, and as a condition precedent to the consummation of this Agreement and any obligations of Alfaro hereunder, the Joint Venture will pay to Alfaro the sum of $1,179,256, which amount represents the sole sum which the Joint Venture will pay to Alfaro for the Prospect and Alfaro's obligation to acquire the Prospect and drill and complete the Prospect well(s), including, but not limited to, the setting of production casing or, if necessary, the plugging and abandoning of a dry hole, as more specifically referred to herein. The Joint Venture acknowledges that such sum is nonrefundable.

Alfaro shall, on behalf of the Joint Venture, acquire the Prospect well(s) and pay all sums necessary to drill and, if warranted, complete the Prospect well(s) in a single target zone.

Should the Joint Venture determine to abandon the Well(s) after the agreed depth has been reached, Alfaro, as part of its obligation hereunder, and at its risk and expense, shall cause the Well(s) to be plugged, and otherwise comply with state statutes and regulations regarding any such abandonment.

Alfaro shall conduct all of its efforts in a good and workmanlike manner and with reasonable due diligence.

In connection with all operations contemplated herein, Alfaro shall act as independent contractor and not an employee of the Joint Venture and shall have complete control over the manner and method of conducting all its operations. Additionally, Alfaro shall faithfully observe and comply with the following:

Alfaro shall comply with all of the valid rules and regulations of any and all regulatory agencies having jurisdiction over such operations;

The duly authorized agents or representative of the Joint Venture shall have free access to the Prospect well(s) at any time and at all times for the purposes of observing such operation;

Alfaro will disclose to the Joint Venture all information Alfaro has concerning the progress of the Prospect well(s) and shall promptly disclose to the Joint Venture all information Alfaro has in connection with all tests made and the results thereof; and

Alfaro will cause to be paid promptly all costs and expenses incurred for labor done, materials or supplies furnished, and services performed, and will protect the Prospect well(s) against all liens or similar encumbrances on account thereof.

This Agreement is intended to create a separate agreement between Alfaro and the Joint Venture. It is not intended, nor shall this Agreement be construed, to create any character or partnership or joint venture between Alfaro and the Joint Venture. The Joint Venture shall not be subject to any assessment by Alfaro for any casualties incurred in connection with "Initial Operations" of the Prospect, as that term is described in that certain Confidential Information Memorandum dated April 13, 2009 regarding the Joint Venture.

No change, modification, or alteration of the Agreement shall be binding upon either Alfaro or the Joint Venture, unless made in writing and executed by either party to which change, modification or alteration relates.

ALFARO

Exhibit 3

This Agreement and the interpretation thereof shall exclusively be governed by and construed in accordance with the laws of the State of Texas. This Agreement shall be deemed to be performable, and venue shall be mandatory in San Antonio, Texas.

IN WITNESS WHEREOF, this Agreement has been executed by Alfaro and the Joint Venture on the date indicated opposite the signature thereto.

ALFARO OIL AND GAS, LLC

By: Brian Alfaro
Brian Alfaro, Chief Executive Officer
Dated: 7/20/09

The East Moss Lake 3-D/PSTM and LNG 3-D/PSTM Joint Venture

By: Brian Alfaro
Brian Alfaro, Chief Executive Officer
Alfaro Oil and Gas, LLC, Managing Venturer
Dated: 7/20/09

EXHIBIT "D"

TURNKEY AGREEMENT

This Turnkey Agreement has been entered into by and between The Screaming Eagle 1H Well Joint Venture, a Texas joint venture (the "Joint Venture"), and Alfaro Oil and Gas, LLC, a Texas limited liability company ("Alfaro").

Whereas, Alfaro has agreed, on behalf of the Joint Venture, to acquire up to 75.0% of the working interest and 53.4375% of the net revenue interest in an acquisition oil and gas prospect in Gonzales and Wilson Counties, Texas (the "Prospect");

Now, therefore, in consideration of the mutual promises, representations and covenants more fully set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereto agree as follows:

1. Contemporaneously herewith, and as a condition precedent to the consummation of this Agreement and any obligations of Alfaro hereunder, the Joint Venture will pay to Alfaro the sum of up to $7,491,600.00, which amount represents the sole sum which the Joint Venture will pay to Alfaro for the Prospect and Alfaro's obligation to acquire the Prospect and drill and complete the Prospect well, including, but not limited to, the setting of production casing or, if necessary, the plugging and abandoning of a dry hole, as more specifically referred to herein. The Joint Venture acknowledges that such sum is nonrefundable.

(a) Alfaro shall, on behalf of the Joint Venture, acquire the Prospect well and pay all sums necessary to drill and, if warranted, complete the Prospect well in a single target zone. Additional attempts at completion in the same zone, sidetracking or completion in a different zone are not included in the turnkey price and will be additional charges to the Venture

(b) Should the Joint Venture determine to abandon the Well after the agreed depth has been reached, Alfaro, as part of its obligation hereunder, and at its risk and expense, shall cause the Well to be plugged, and otherwise comply with state statutes and regulations regarding any such abandonment.

(c) Alfaro shall conduct all of its efforts in a good and workmanlike manner and with reasonable due diligence.

(d) In connection with all operations contemplated herein, Alfaro shall act as independent contractor and not an employee of the Joint Venture and shall have complete control over the manner and method of conducting all its operations. Additionally, Alfaro shall faithfully observe and comply with the following:

(a) Alfaro shall comply with all of the valid rules and regulations of any and all regulatory agencies having jurisdiction over such operations;

(a) The duly authorized agents or representative of the Joint Venture shall have free access to the Prospect well at any time and at all times for the purposes of observing such operation;

(b) Alfaro will disclose to the Joint Venture all information Alfaro has concerning the progress of the Prospect well and shall promptly disclose to the Joint Venture all information Alfaro has in connection with all tests made and the results thereof; and

(c) Alfaro will cause to be paid promptly all costs and expenses incurred for labor done, materials or supplies furnished, and services performed, and will protect the Prospect well against all liens or similar encumbrances on account thereof.

(e) This Agreement is intended to create a separate agreement between Alfaro and the Joint Venture. It is not intended, nor shall this Agreement be construed, to create any partnership or joint venture between Alfaro and the Joint Venture. The Joint Venture shall not be subject to any assessment by Alfaro for any costs and expenses incurred

Exhibit 4

in connection with "Initial Operations" of the Prospect, as that term is described in that certain Confidential Private Placement Memorandum dated December 5, 2011 regarding the Joint Venture.

(f) No change, modification, or alteration of the Agreement shall be binding upon either Alfaro or the Joint Venture, unless made in writing and executed by either party to which change, modification or alteration relates.

(g) This Agreement and the interpretation thereof shall exclusively be governed by and construed in accordance with the laws of the State of Texas. This Agreement shall be deemed to be performable, and venue shall be mandatory in San Antonio, Texas.

IN WITNESS WHEREOF, this Agreement has been executed by Alfaro and the Joint Venture on the date indicated opposite the signature thereto.

ALFARO OIL AND GAS, LLC

By:_____
Brian Alfaro, Chief Executive Officer

Dated: _____

THE SCREAMING EAGLE 1H WELL JOINT VENTURE
A Texas Joint Venture Partnership

By: _____
Brian Alfaro, Chief Executive Officer
Alfaro Oil and Gas, LLC, Managing Venturer

Dated: _____

JORDANOIL

jordanoilcompany.com

May 24, 2010

Attn: Mr. Brian K. Alfaro
Alfaro Oil & Gas, LLC
21022 Gathering Oak, Suite #2101
San Antonio, Texas 78260

FILED 2.20.14
Deputy Clerk of Court
Calcasieu Parish, Louisiana

OFFICE OF CLERK OF COURT
2013 FEB 20 PM 3:47
CALCASIEU PARISH, LOUISIANA

Re: **East Airport Prospect Letter Agreement**
HBY RF SUA; Walker #1 Sidetrack
Section 08, T11S – R08W
South Lake Charles Field
Calcasieu Parish, LA

Dear Mr. Alfaro:

When executed, this letter will represent an agreement by and between Jordan Oil Company, Inc. ("Jordan") and Alfaro Oil & Gas, LLC ("ALFARO") setting forth the conditions under which ALFARO agrees to participate in the East Airport Prospect, Calcasieu Parish, LA, ("Prospect"), said Prospect area being defined by the HBY RF SUA Unit created by Office of Conservation Order No. 226-S-7 as shown on the plat attached hereto as Exhibit "A", the Area of Mutual Interest ("AMI"). The following are the terms and covering the Prospect area to-wit:

a) Jordan agrees to assign to ALFARO an undivided TWENTY-TWO PERCENT (22.0%) interest in and to all oil and gas interests within the Prospect area, subject to the following reservations:

1) Jordan hereby reserves an overriding royalty interest ("ORRI") equal to the difference between existing lease burdens, overrides and twenty-seven percent (27%) for all leases acquired within the Prospect AMI. Jordan has acquired approximately 500 gross and net acres in the prospect area. ALFARO agrees to pay its proportionate share of the acquisition of these leases, ratifications and rentals which have been paid or become due and the associated brokerage costs to acquire any additional leases in the prospect when acquired by Jordan and any other incremental costs incurred by Jordan relevant to the project, including but not limited to, attorney's fees, cost of abstracting, surveys, consultants, regulatory or unitization proceedings and representation, geologic and geophysical interpretations, and title opinions. Jordan will exercise its best efforts to deliver seventy percent (73%) net revenue leases; however, in no event shall Jordan's ORRI in any lease shall be less than two percent (2%). Should any lease cover less than one-hundred percent (100%) mineral interest, then the ORRI shall be proportionally reduced.

Exhibit 5

EXHIBIT
/

2) ALFARO shall bear its TWENTY-TWO PERCENT (22.0%) share of all geological, geophysical, land and prospect fees. These costs are estimated to be $550,000.00 through May 1, 2010; therefore, ALFARO's share would be $121,000. Should the actual land, geological, geophysical costs and prospect fees exceed $550,000, then Jordan will bill ALFARO for its additional share of these costs and ALFARO will remit payment to Jordan within 30 days.

3) ALFARO shall bear its TWENTY-TWO PERCENT (22.0%) share of the cost of the acquisition of the Denali Walker #1 wellbore and surface location. The cost of the wellbore is $300,000; therefore ALFARO's share would be $66,000. This is a fixed cost item; therefore, at no point in time will Jordan require any additional payment for costs associated with the acquisition of the existing wellbore and surface location.

4) ALFARO shall pay TWENTY-NINE AND ONE-THIRD (29.333%) percent of the cost associated with drilling the first well on the Prospect to casing point, as shown on the Preliminary Authorization for Expenditure, attached hereto as Exhibit "C". ALFARO shall bear TWENTY-TWO PERCENT (22.0%) of all costs associated with the initial test well after casing point election and TWENTY-TWO PERCENT (22.0%) of all other costs associated with the Prospect, pursuant to the terms of a 1989 AAPL Model Form Operating Agreement, to be attached hereto as Exhibit "B". Jordan will bill ALFARO for its prorata share of the AFE, thirty days in advance of operations, including the location preparation commencing on any well drilled within the AMI and ALFARO shall remit said amount to Jordan within seven (7) days of receiving said bill.

5) Jordan will be designated as Operator. The final drilling location, depths and objective formations, drilling prognosis and associated AFE will be presented to the parties under separate cover; however, the first well in the project will be drilled at a legal location to sufficiently test the Lower Hackberry sand with an expected TVD of +/- 13,900' as seen at 13,766' TVD in the Denali Oil & Gas Walker #1 Well in Section 8, T11S - R8W, Calcasieu Parish, Louisiana.

6) Jordan and ALFARO agree that they will execute a 1989 Form Joint Operating Agreement ("JOA") substantially in the form attached hereto as **EXHIBIT "B"** with an AMI covering the Prospect area and delineated by a plat attached hereto as **EXHIBIT "A"**.

7) Each well drilled after the initial well within the AMI shall be deemed a new well with an "in or out" applicable. If a party elects not to participate in a subsequent well proposal, such party will have the right to participate in subsequent proposals on acreage: (i) not unitized or allocated to an existing prospect and (ii) prospects that are partially or wholly situated within existing units or allocated units but 100' below the deepest producing interval or depth drilled, whatever case applies.

If a completion attempt is made on the well, then ALFARO will escrow with Jordan its TWENTY-TWO PERCENT (22.0%) share of the plugging and abandonment operations on the well and restoration of the drillsite. ALFARO shall not sell, transfer, or assign any of its interest without the prior written consent of Jordan, which will not be unreasonably withheld.

If the foregoing correctly represents your understanding of our agreement, please evidence your acceptance by signing, dating and returning to my attention one original hereto, together with your check *payable to* **Jordan Oil Company, Inc.** in the sum of **$890,422.00**, representing ALFARO's proportionate share of the Prospect acquisition and drilling costs. This Letter Agreement shall be null, void and have no further effect unless accepted by ALFARO and returned to Jordan via mail and/or facsimile transmission on or before 4:00 p.m. Central Time on June 4, 2010.

Very truly yours,

Phillip A. Gayle, Jr.
Landman

AGREED TO AND ACCEPTED this 27 day of MAY, 2010.

ALFARO OIL & GAS, LLC

By: _____
Name: Brian K. Alfaro
Title: PRESIDENT

Participant: ALFARO OIL & GAS, LLC
Address: 2022 GATHERING OAK, STE 2101
SAN ANTONIO, TX 78260
Tax I.D. #: 76-21123970
Phone: 210-490-8200
E-mail: SHELLEY@ALFAROENERGY.COM

EXHIBIT "A"

Attached hereto and made a part hereof that certain Letter Agreement, dated May 21, 2010, by and between Jordan Oil Company, Inc. and Alfaro Oil & Gas, LLC

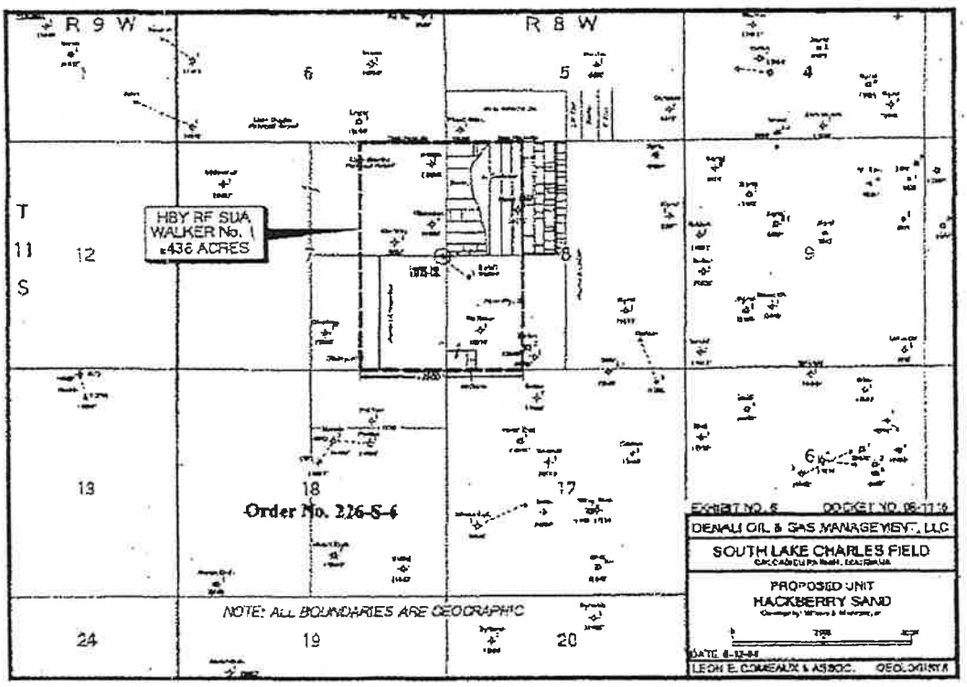

EXHIBIT "C" - PRELIMINARY AUTHORIZATION FOR EXPENDITURE
DRILL and COMPLETE

_X_ ORIGINAL
_____ SUPPLEMENT NO.____
_____ REVISION NO.____

AFE NO.
DATE 5/12/2010

Lease/Well	Walker #1 Sidetrack	Submitted By	Richard Vickery
Operator	Jordan Oil Company	_X_ New Well	____Re-Entry ____Deepening
Location		County	Calcasieu
Field/Prospect	East Airport	Proposed TD	13,900' TVD /14,112 MD
Objective Zone(s)		State	Louisiana

___OIL _X_GAS ___SINGLE ___DUAL ___SWDW ___INJ WELL _X_ EXPLORATORY ___DEVELOPMENT

ITEM	BASIS	$	DRY HOLE	RUN PROD. CASING	COMPLETE	TOTAL COMPLETION	TOTAL
INTANGIBLE COSTS							
Legal DTO & DOTO			50,000				50 000
/Surveys, Damages, Mitigation							
Rig Modification/Rig-Up/Rig-Down			100,000		8,000	8,000	108 000
Rig Time Footage:							
Rig Time Daywork:			312,000	39,000	63,000	102,000	414 000
Contract Drilling Turnkey:							
Completion Rig/Prep Wellbore			200,000				200 000
Fuel, Power, & Water			66,000	7,500	10,000	17,500	83 500
Pipe, Tools, Equipment Rental			182,240	20,169	21,000	41,169	223 409
Mud & Chemicals			200,000	15,000	24,000	39,000	239 000
Drilling Bit Rental			53,000		1,500	1,500	54 500
Directional Drilling			174,000				174 000
Perforating Cased Hole Log					24,000	24,000	24 000
Cement & Cement Services			43,500	30,000	16,000	46,000	89 500
Open Hole Logging			50,000				50 000
SWC and Analysis/ Flow Testing					15,000	15,000	15 000
Mud Logging			18,000	2,250		2,250	20 250
Casing Crews			8,000	8,000		8,000	16 000
Location			85,000		10,000	10,000	95 000
Transportation			21,700	4,800	7,000	11,800	33 500
Supervision			73,800	16,200	24,000	40,200	114 000
Stimulation							
Abandonment Expense			57,000	(57,000)		(57,000)	
Labor			27,500	4,000	10,000	14,000	41 500
Facilities Installation							
Drill Site Reclamation(disposal)			34,286		15,000	15,000	49 286
Special Lease Provisions (Environmental)							
Insurance			86,186				86 186
Overhead			9,600		3,000	3,000	12 600
Miscellaneous(Inspections & Supplies)			23,650		10,000	10,000	33 650
Contingencies		20%	375,088	10,814	52,200	63,114	438 202
TOTAL INTANGIBLES			$2,250,530	$100,733	$313,500	$414,533	$2,665,063
TANGIBLE COSTS							
Conductor Csg							
Surface Csg							
Intermec Csg							
Production Casing				352,500		352,500	352 500
Liners			67,500				67 500
Tubing					126,000	126,000	126 000
Wellhead Equipment A & B Section			10,000		15,000	15,000	25 000
Subsurface Equipment			70,000	5,000		5,000	75 000
Artificial Lift Equipment							
Connections & Valves							
Tank Battery					35,000	35,000	35 000
Heater Treater/Compressor					20,000	20,000	20 000
Line heater/Seperator/Dehycrator/Meter					66,500	66,500	66 500
Other Equipment					7,200	7,200	7 200
Pipeline							
Miscellaneous & Contingencies							
TOTAL TANGIBLES			$147,500	$357,500	$289,700	$647,200	$794,700
TOTAL WELL COST			$2,398,030	$458,233	$603,500	$1,061,733	$3,459,763

Share of DHC (28.333%) $703,422.05 Share of C.C: Share of Total: $703,422

Jordan Oil Company
Approved By: Phillip A. Gayle, Jr.
Date: 5/24/2010

% of Project
Approved By
Title

Company: Alfaro Oil & Gas, LLC
Date

JORDAN OIL COMPANY, INC.

February 26, 2009

Alfaro Oil and Gas, LLC
Attn: Brian Alfaro
21022 Gathering Oak
Suite 2101
San Antonio, TX 78260

Re: East Moss Lake Attic Prospect
Letter Agreement
Calcasieu Parish, LA

Dear Mr. Alfaro:

When executed, this letter will represent an agreement by and between Jordan Oil Company, Inc ("Jordan") and Alfaro Oil and Gas, LLC ("Alfaro") setting forth the conditions under which Alfaro agrees to participate in the East Moss Lake Attic Prospect, Calcasieu Parish, LA, ("Prospect") delineated within the bold outline shown on the map attached hereto as Exhibit "A", the Area of Mutual Interest. The following are the terms and covering the Prospect area to-wit:

a) Jordan agrees to assign to Alfaro an undivided ten percent (10%) interest in and to all oil and gas interests within the Prospect area, subject to the following reservations:

1) Jordan hereby reserves an overriding royalty interest ("ORRI") equal to the difference between existing lease burdens, overrides and thirty percent (30%) for all leases acquired within the Prospect AMI. Jordan has acquired approximately 288 gross and net acres in the project. Alfaro agrees to pay its proportionate share of the acquisition of these leases, ratifications and rentals which have been paid or become due and the associated brokerage costs to acquire any additional leases in the prospect when acquired by Jordan and any other incremental costs incurred by Jordan relevant to the project, including but not limited to, attorney's fees, cost of abstracting, surveys, consultants, regulatory or unitization proceedings and representation, geologic and geophysical interpretations, and title opinions. Jordan will exercise its best efforts to deliver seventy percent (70%) net revenue leases; however, in no event shall Jordan's ORRI in any lease shall be less than four percent (4%). Should any lease cover less than one-hundred percent (100%) mineral interest, then the ORRI shall be proportionally reduced.

2) Alfaro shall bear its ten percent (10%) share of all geological, geophysical, land and prospect fees. These costs are estimated to be $345,000.00 through December 31, 2008; therefore, Alfaro's share would be $34,500.00. Alfaro will forward said payment to Jordan by March 31, 2009. Should the actual land, geological, geophysical costs and prospect fees exceed $345,000, then Jordan will bill Alfaro for its additional share of these costs and Alfaro will remit payment to Jordan within 30 days.

3) Alfaro shall bear thirteen and one-third percent (13.333%) of the cost associated with drilling the first well on the Prospect to casing point. However, should the initial well's actual cost exceed the cost shown on the final approved AFE, then Alfaro shall bear thirteen and one-

LAKE CHARLES OFFICE
P.O. BOX 1863
LAKE CHARLES, LOUISIANA 70602
(337) 436-1000 • FAX (337) 436-9602

HOUSTON OFFICE
10370 RICHMOND AVE. STE. 525
HOUSTON, TX 77042
713) 783-2167 • FAX (713) 783-5260

third percent (13.333%) of the actual drilling costs that are in excess of the approved AFE Cost before casing point and shall bear ten percent (10%) of all costs associated with the initial test well after casing point election and ten percent (10%) of all other costs associated with the Prospect, pursuant to the terms of a 1989 AAPL Model Form Operating Agreement, to be attached hereto as Exhibit "B". Jordan will bill Alfaro for its prorata share of the AFE, thirty days in advance of operations, including the location preparation commencing on any well drilled within the AMI and Alfaro shall remit said amount to Jordan within seven (7) days of receiving said bill.

4) Jordan will be designated as Operator. The final drilling location, depths and objective formations, drilling prognosis and associated AFE will be presented to the parties; however, the first well in the project will be drilled at a legal location to sufficiently test the Lower 10,400' Sand or the same correlative zone as encountered in the Continental Scheperle A1 well, with an expected TVD of +/- 10,600' in Section 3, T11S-R9W, Calcasieu Parish, LA.

5) Jordan and Alfaro agree that they will execute a 1989 Form Joint Operating Agreement ("JOA") substantially in the form attached hereto as **EXHIBIT "B"** with an AMI covering the area of interest and delineated by a plat attached thereto as **EXHIBIT "A"**.

6) Each well drilled after the initial well within the AMI shall be deemed a new well with an "in or out" applicable. If a party elects not to participate in a subsequent well proposal, such party will have the right to participate in subsequent proposals on acreage: (i) not unitized or allocated to an existing prospect and (ii) prospects that are partially or wholly situated within existing units or allocated units but 100' below the deepest producing interval or depth drilled, whatever case applies.

If a completion attempt is made on the well, then Alfaro will escrow with Jordan its ten percent (10%) share of the plugging and abandonment operations on the well and restoration of the drillsite. Alfaro shall sell, transfer, or assign any of its interest without the prior written consent of the other party, which will not be unreasonably withheld.

Should this Letter Agreement accurately reflect our understanding, please indicate so by signing, dating and returning to my attention one original hereto at your earliest convenience. This Letter Agreement shall be null, void and have no further effect unless accepted by Alfaro and returned to Jordan via mail and/or facsimile transmission on or before 4:00 p.m. Central Time on Wednesday March 4, 2009.

Very truly yours,

Dennis D. Fruge'
Vice President - Land

AGREED TO AND ACCEPTED this 3rd day of March, 2009.

ALFARO OIL AND GAS, LLC

By: _____
Name: Brian Alfaro
Title: President

V

JORDAN OIL COMPANY, INC

February 26, 2009

Alfaro Oil and Gas, LLC
Attn: Brian Alfaro
21022 Gathering Oak
Suite 2101
San Antonio, TX 78260

Re: LNG Prospect Letter Agreement
Calcasieu Parish, LA

Dear Mr. Alfaro:

When executed, this letter will represent an agreement by and between Jordan Oil Company, Inc. ("Jordan") and Alfaro Oil and Gas, LLC ("Alfaro") setting forth the conditions under which Alfaro agrees to participate in the LNG Prospect, Calcasieu Parish, LA. ("Prospect") delineated within the bold outline shown on the map attached hereto as Exhibit "A", the Area of Mutual Interest. The following are the terms and covering the Prospect area to-wit:

a) Jordan agrees to assign to Alfaro an undivided ten percent (10%) interest in and to all oil and gas interests within the Prospect area, subject to the following reservations:

1) Jordan hereby reserves an overriding royalty interest ("ORRI") equal to the difference between existing lease burdens, overrides and thirty percent (30%) for all leases acquired within the Prospect AMI. Jordan has acquired approximately 278.52 gross and net acres in the project. Alfaro agrees to pay its proportionate share of the acquisition of these leases, ratifications and rentals which have been paid or become due and the associated brokerage costs to acquire any additional leases in the prospect when acquired by Jordan and any other incremental costs incurred by Jordan relevant to the project, including but not limited to, attorney's fees, cost of abstracting, surveys, consultants, regulatory or unitization proceedings and representation, geologic and geophysical interpretations, and title opinions. Jordan will exercise its best efforts to deliver seventy percent (70%) net revenue leases; however, in no event shall Jordan's ORRI in any lease shall be less than four percent (4%). Should any lease cover less than one-hundred percent (100%) mineral interest, then the ORRI shall be proportionally reduced.

2) Alfaro shall bear its ten percent (10%) share of all geological, geophysical, land and prospect fees. These costs are estimated to be $325,000 through December 31, 2008; therefore, Alfaro's share would be $32,500.00. Alfaro will forward said payment to Jordan by March 15, 2009. Should the actual land, geological, geophysical costs and prospect fees exceed $325,000.00 then Jordan will bill Alfaro for its additional share of these costs and Alfaro will remit payment to Jordan within 30 days.

3) Alfaro shall bear thirteen and one-third percent (13.333%) of the cost associated with drilling the first well on the Prospect to casing point. However, should the initial well's actual cost exceed the cost shown on the final approved AFE, then Alfaro shall bear thirteen and one-

LAKE CHARLES OFFICE
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HOUSTON, TX 77042
713 783-2167 • FAX (713) 783-5260

third percent (13.333%) of the actual drilling costs that are in excess of the approved AFE Cost before casing point and shall bear ten percent (10%) of all costs associated with the initial test well after casing point election and ten percent (10%) of all other costs associated with the Prospect, pursuant to the terms of a 1989 AAPL Model Form Operating Agreement, to be attached hereto as Exhibit "B". Jordan will bill Alfaro for its prorata share of the AFE, thirty days in advance of operations, including the location preparation commencing on any well drilled within the AMI and Alfaro shall remit said amount to Jordan within seven (7) days of receiving said bill.

4) Jordan will be designated as Operator. The final drilling location, depths and objective formations, drilling prognosis and associated AFE will be presented to the parties; however, the first well in the project will be drilled at a legal location to sufficiently test the Lower 10,400' sand with an expected TVD of +/- 10,600' as seen at 10,425' TVD in the Continental Oil Baggett #1 Well in Section 9, T11S-R9W, Calcasieu Parish, LA.

5) Jordan and Alfaro agree that they will execute a 1989 Form Joint Operating Agreement ("JOA") substantially in the form attached hereto as **EXHIBIT "B"** with an AMI covering the area of interest and delineated by a plat attached thereto as **EXHIBIT "A"**.

6) Each well drilled after the initial well within the AMI shall be deemed a new well with an "in or out" applicable. If a party elects not to participate in a subsequent well proposal, such party will have the right to participate in subsequent proposals on acreage: (i) not unitized or allocated to an existing prospect and (ii) prospects that are partially or wholly situated within existing units or allocated units but 100' below the deepest producing interval or depth drilled, whatever case applies.

If a completion attempt is made on the well, then Alfaro will escrow with Jordan its ten percent (10%) share of the plugging and abandonment operations on the well and restoration of the drillsite. Alfaro shall sell, transfer, or assign any of its interest without the prior written consent of Jordan, which will not be unreasonably withheld.

Should this Letter Agreement accurately reflect our understanding, please indicate so by signing, dating and returning to my attention one original hereto at your earliest convenience. This Letter Agreement shall be null, void and have no further effect unless accepted by Alfaro and returned to Jordan via mail and/or facsimile transmission on or before 4:00 p.m. Central Time on Wednesday March 4, 2009.

Very truly yours.

Dennis D. Frugé
Vice President - Land

AGREED TO AND ACCEPTED this 3rd day of March, 2009.

ALFARO OIL AND GAS, LLC

By: _____
Name: Brian Alfaro
Title: President

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

The Screaming Eagle 1H Well Joint Venture

A Texas Joint Venture Partnership

Up to 75 Joint Venture Interests
Minimum Offering $199,776.00 Maximum Offering $7,491,600.00
Price: $99,888.00 Per Interest; Minimum Investment: 1/4 Interest

This Confidential Private Placement Memorandum describes the participation in interests in a joint venture partnership issuer (the "Joint Venture" or "Venture") under Texas partnership law to be formed to engage primarily in the business of drilling, owning, and operating certain working interests in one hydrocarbon well (the "Well") in Gonzales and Wilson Counties, Texas and, if successful, the production of hydrocarbons there from. Alfaro Oil and Gas, LLC, a Texas limited liability company ("Alfaro "), will serve as the Initial Managing Venturer of the Venture (the "Managing Venturer"). The Venture will be formed and, upon acceptance by Alfaro of Subscription Agreements for two (2) Interests meeting the requirements described herein, Subscribers will be admitted as General Partners ("Venturers") in the Joint Venture. All Venturers will be obligated to enter into the Joint Venture Agreement (the "Agreement") in substantially the form described herein and attached hereto as Exhibit "A."

Investment Objectives

The investment objective of the Venture will be: (1) to preserve and protect the Venture's capital; (2) to provide cash distributions from operations; and (3) in its initial year(s) operation, to provide current tax benefits to Venturers to offset income from any source (see "Proposed Activities" and "Federal Income Tax Considerations - Special Features of Oil and Natural Gas Taxation"). There can be no assurance that the Venture's investment objectives will be achieved.

Inherent Risks

Inherent in this Venture are risks, among others, related to: • Failure to locate gas or oil and drilling a Dry Hole • Speculative Revenues from Production • General Liability of All Venturers as General Partners • Inability to Sell or Transfer Interests • Assessments and Abandonment of Interests for Non-Payment • Uninsured Risks • Possible Loss of Entire Investment • Pollution Hazard. See "Risk Factors."

Management of Venture

The Venture will be a separate entity, and the Venturers will not have, by virtue of such Interest, any rights or obligations with respect to the Managing Venturer or any other joint venture. Venturers in this Joint Venture are provided extensive and significant management powers. Venturers are and will be expected to exercise such powers, and are prohibited from relying on the Managing Venturer for the success or profitability of the Venture.

Placement Agent

The offering may be accomplished by certain licensed broker/dealers who will receive a commission of up to ten percent (10%), a two percent (2%) due diligence fee and a three percent (3%) nonallocable expense fee on the gross proceeds of the Offering. Currently it is anticipated that this offering will be accomplished by the Issuer without the assistance of a Placement Agent

PARTICIPATION IN THIS VENTURE IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS." THERE IS NO PUBLIC MARKET FOR THE INTERESTS. ALL VENTURERS, AS GENERAL PARTNERS, MAY BE SUBJECT TO UNLIMITED LIABILITY FOR THE VENTURE'S OBLIGATIONS TO THE EXTENT SUCH LIABILITIES ARE NOT SATISFIED BY INSURANCE PROCEEDS, ASSETS OF THE JOINT VENTURE, OR THE MANAGING VENTURER'S INDEMNIFICATION. SEE "RISK FACTORS."

The Screaming Eagle 1H Well Joint Venture
c/o Alfaro Oil & Gas, LLC, Managing Venturer
21022 Gathering Oak, Suite 2101
San Antonio, Texas 78260
210-545-9600

The Date of this Confidential Private Placement Memorandum is December 5, 2011.

PARTICIPATION AS A JOINT VENTURER HEREIN INVOLVES A HIGH DEGREE OF RISK, AND ONLY THOSE PERSONS WHO ARE ABLE TO BEAR THE FINANCIAL RISKS REFERRED TO IN THIS MEMORANDUM SHOULD CONSIDER PARTICIPATING IN THIS VENTURE. SEE "RISK FACTORS" FOR A DETAILED DESCRIPTION OF SOME OF THE RISKS DESCRIBED HEREIN. PARTICIPATION AS A JOINT VENTURER HEREIN INVOLVES A LONG TERM INVESTMENT.

THE MANAGING VENTURER DOES NOT BELIEVE THE INTERESTS IN THIS JOINT VENTURE ARE SECURITIES AS THAT TERM IS DEFINED IN THE FEDERAL AND STATE SECURITIES LAWS. RATHER, THE MANAGING VENTURER BELIEVES THAT THIS IS A TRUE JOINT VENTURE OR PARTNERSHIP AS THOSE BUSINESS ASSOCIATIONS ARE TREATED IN THE TEXAS BUSINESS ORGANIZATIONS CODE, WILLIAMSON V. TUCKER, 645 F.2D 404 (5TH CIR. 1981), AND SECURITIES EXCHANGE COMMISSION V. HOWEY, 328 U.S. 293 (1946). WHILE THE MANAGING VENTURER DOES NOT BELIEVE THAT THE JOINT VENTURE INTERESTS ARE SECURITIES AS THAT TERM IS DEFINED IN THE FEDERAL AND STATE SECURITIES LAWS, NONETHELESS THE MANAGING VENTURER MAY QUALIFY THE INTERESTS OF JOINT VENTURE INTERESTS AS TRANSACTIONS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF FEDERAL AND STATE SECURITIES LAWS AND REGULATIONS, AS MAY BE APPLICABLE INCLUDING, BUT NOT LIMITED TO, RULE 506 OF REGULATION D. ALL PROPOSED VENTURERS ARE REQUIRED TO ACKNOWLEDGE, WARRANT AND REPRESENT THAT THEY POSSESS THE REQUISITE BUSINESS KNOWLEDGE AND EXPERIENCE TO SELECT APPROPRIATE MANAGING VENTURERS, THAT THE VENTURERS ARE NOT RELYING ON THE MANAGERIAL EFFORTS OF THE MANAGING VENTURER FOR THE SUCCESS OF THE VENTURE, AND THAT THEIR EXPERIENCE AND KNOWLEDGE ENABLES THEM TO EFFECTIVELY EXERCISE THE MANAGERIAL POWERS AND AUTHORITY CONFERRED UPON THEM BY THE JOINT VENTURE AGREEMENT. BY EXECUTING THE ATTACHED JOINT VENTURE AGREEMENT, A PROSPECTIVE JOINT VENTURER ALSO SIGNIFIES HIS OR HER AGREEMENT THAT THE INTERESTS MENTIONED HEREIN ARE NOT SECURITIES, AND THAT IT IS HIS OR HER INTENT TO PURCHASE INTERESTS IN A JOINT VENTURE PARTNERSHIP.

TO THE EXTENT THAT THESE INTERESTS MAY BE SECURITIES, THEY HAVE NEITHER BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR REGISTERED UNDER THE SECURITIES LAWS OF ANY STATE, EXCEPT WHERE REQUIRED BY APPLICABLE LAW, AND ARE BEING SOLD ONLY TO A MAXIMUM OF THIRTY-FIVE (35) NON-ACCREDITED INVESTORS AND AN UNLIMITED NUMBER OF ACCREDITED INVESTORS (AS PERMITTED IN THE JURISDICTIONS IN WHICH OFFERS WILL BE MADE), ALL OF WHOM ARE SUITABLE INVESTORS ACCEPTABLE TO THE VENTURE AND WHO WILL ACQUIRE THESE SECURITIES SOLELY FOR INVESTMENT AND NOT WITH A VIEW TO THE DISTRIBUTION AND RESALE THEREOF.

ALFARO OIL & GAS, LLC, THE MANAGING VENTURER (SOMETIMES HEREIN REFERRED TO AS THE "MANAGING VENTURER" OR "ALFARO", INTENDS TO RECEIVE APPLICATIONS FOR UP TO 75 INTERESTS OF JOINT VENTURE INTERESTS (THE "INTERESTS") IN THE SCREAMING EAGLE 1H WELL JOINT VENTURE, A TEXAS JOINT VENTURE PARTNERSHIP (THE "VENTURE") WHICH HAS BEEN FORMED FOR THE EXPLORATION, DRILLING, TESTING, COMPLETION AND, IF SUCCESSFUL, PRODUCTION OF OIL AND/OR GAS.

NEITHER THIS MEMORANDUM NOR OTHER INFORMATION DESCRIBING THE JOINT VENTURE INTERESTS HAVE BEEN FILED WITH, SUBMITTED TO, APPROVED OR REVIEWED BY THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION OR SIMILAR STATE REGULATORY AGENCY. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION OR SIMILAR STATE REGULATORY AGENCY HAS PASSED UPON, APPROVED, DISAPPROVED OR COMMENTED UPON THE RISKS, MERITS OR ANY OTHER ASPECT OF THE JOINT VENTURE, THE INTERESTS, THIS MEMORANDUM OR THE CONTENTS HEREOF. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS MEMORANDUM IS PREPARED SOLELY FOR THE BENEFIT OF QUALIFIED PERSONS ACCEPTABLE TO THE MANAGING VENTURER WHO MEET THE SUITABILITY STANDARDS SET BY THE MANAGING VENTURER (SEE "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS"). ANY REPRODUCTION

OR DISTRIBUTION OF THIS MEMORANDUM, IN WHOLE OR IN PART, OR THE DIVULGENCE OF ANY OF THE INFORMATION CONTAINED HEREIN WITHOUT THE PRIOR WRITTEN CONSENT OF ALFAROIS PROHIBITED. THE PROSPECTIVE VENTURER, BY ACCEPTING DELIVERY OF THIS MEMORANDUM, AGREES TO RETURN IT AND ALL ENCLOSED DOCUMENTS TO ALFAROIN THE EVENT HE OR SHE DECIDES NOT TO PARTICIPATE IN THE VENTURE DESCRIBED HEREIN.

THE INFORMATION CONTAINED IN THIS MEMORANDUM HAS BEEN OBTAINED FROM SOURCES BELIEVED BY ALFARO TO BE RELIABLE, AND SUCH INFORMATION IS BELIEVED BY ALFARO TO BE ACCURATE AND COMPLETE. HOWEVER, NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY PARTICIPATION IN THE INTERESTS DESCRIBED HEREIN SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS TRUE AND ACCURATE AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF. NO PERSON OTHER THAN ALFARO HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION IN CONNECTION WITH THE INTERESTS DESCRIBED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ALFARO. NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM.

THE PURPOSE OF THIS MEMORANDUM IS TO PROVIDE THE PROSPECTIVE VENTURER WITH THAT INFORMATION WHICH ALFARO BELIEVES IS PERTINENT IN MAKING AN INFORMED DECISION AS TO PARTICIPATION IN THE VENTURE. IT IS RECOGNIZED THAT ADDITIONAL INFORMATION MAY BE DESIRED BY A PROSPECTIVE VENTURER PRIOR TO MAKING HIS OR HER DECISION. THEREFORE, EACH PROPOSED VENTURER IS ENCOURAGED TO MAKE FURTHER, INDEPENDENT INQUIRY IN AN EFFORT TO SATISFACTORILY ANSWER ANY QUESTIONS HE OR SHE MAY HAVE. REQUESTS FOR FURTHER INFORMATION MAY BE MADE TO ALFARO, AND SUCH INFORMATION SHOULD NOT SOLELY BE RELIED UPON WHEN REACHING AN INFORMED DECISION.

PROSPECTIVE VENTURERS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM OR ANY SUBSEQUENT COMMUNICATION FROM ALFARO OR ANY AFFILIATE AS LEGAL OR TAX ADVICE. EACH PERSON IS ENCOURAGED TO SEEK INDEPENDENT LEGAL AND TAX ADVICE REGARDING HIS OR HER PARTICULAR SITUATION AND, MORE SPECIFICALLY, ANY PARTICIPATION IN THE VENTURE REFERRED TO HEREIN. ALFARO MAKES NO REPRESENTATIONS AS TO THE EFFECT OF PARTICIPATING IN INTERESTS DESCRIBED HEREIN ON THE PARTICULAR FEDERAL OR STATE INCOME TAX SITUATION OF ANY PROSPECTIVE VENTURER.

ANY COMMUNICATION REGARDING PARTICIPATION IN THE INTERESTS DESCRIBED HEREIN SHALL ONLY BE MADE THROUGH PERSONAL NEGOTIATIONS BETWEEN A PROSPECTIVE VENTURER AND AN AUTHORIZED REPRESENTATIVE OF ALFARO. SUCH PERSONAL NEGOTIATIONS ARE INTENDED BY ALFARO TO INSURE, AMONG OTHER THINGS, ADHERENCE TO THE SUITABILITY STANDARDS REQUIRED OF POTENTIAL VENTURERS AND TO PROVIDE POTENTIAL VENTURERS THE OPPORTUNITY TO SEEK SUCH EXPLANATIONS AND/OR ADDITIONAL INFORMATION ABOUT THE VENTURE AS THEY MAY DESIRE.

CERTAIN STATEMENTS, ESTIMATES AND PROJECTIONS CONTAINED IN THIS MEMORANDUM HAVE BEEN PREPARED BY ALFARO AND ITS VARIOUS ADVISORS AND AFFILIATES, AND ARE CONTAINED HEREIN FOR THE LIMITED PURPOSE OF EVALUATING THE PROPOSED PLAN OF THE VENTURE BY ILLUSTRATING, UNDER CERTAIN LIMITED ASSUMPTIONS, THE RESULTS OF PROJECTED OPERATIONS. WHILE PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED ON CERTAIN ASSUMPTIONS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, NATURAL, POLITICAL, REGULATORY AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT AND MANY OF WHICH ARE BEYOND THE CONTROL OF ALFARO AND ITS ADVISORS AND AFFILIATES, AND UPON ASSUMPTIONS WITH RESPECT TO FUTURE BUSINESS DECISIONS THAT ARE SUBJECT TO CHANGE. PROJECTIONS REGARDING RESERVES AND POTENTIAL PRODUCTION ARE SPECULATION BY ALFARO AND MAY NOT CONSIDER OTHER WELLS OR FORMER WELLS IN THE AREA OF THE PLANNED PROJECT WELL, INCLUDING THOSE WELLS WHICH WERE DRY HOLES OR COMMERICALLY UNPRODUCTIVE. PROSPECTIVE INVESTORS ARE STRONGLY

CAUTIONED NOT TO RELY ON SAID PROJECTIONS IN MAKING THEIR INVESTMENT DECISION.

THERE CAN BE NO ASSURANCE THAT THE PROJECTIONS OR THE UNDERLYING ASSUMPTIONS WILL BE REALIZED, AND THE ACTUAL RESULTS OF OPERATIONS ARE VERY LIKELY TO BE MATERIALLY DIFFERENT FROM THOSE SHOWN. UNDER NO CIRCUMSTANCES SHOULD THE INCLUSION OF THE PROJECTIONS BE REGARDED AS A REPRESENTATION, WARRANTY OR PREDICTION BY THE VENTURE OR ANY OTHER PERSON WITH RESPECT TO THE ACCURACY THEREOF OR THE ACCURACY OF THE UNDERLYING ASSUMPTIONS, OR THAT THE VENTURE WILL ACHIEVE OR IS LIKELY TO ACHIEVE ANY PARTICULAR RESULTS. THERE CAN BE NO ASSURANCE THAT THE VENTURE'S ACTUAL FUTURE RESULTS WILL NOT VARY MATERIALLY FROM THE PROJECTIONS. EACH RECIPIENT OF THIS MEMORANDUM IS CAUTIONED NOT TO PLACE UNDUE RELIANCE ON PROJECTIONS. THE VENTURE'S INDEPENDENT ACCOUNTANTS HAVE NOT COMPILED OR EXAMINED THESE PROJECTIONS AND, ACCORDINGLY, DO NOT EXPRESS AN OPINION OR ANY OTHER FORM OF ASSURANCE ON THEM.

EACH PROSPECTIVE VENTURER SHALL BE REQUIRED TO EXECUTE A QUESTIONNAIRE AND RECEIPT FOR HIS OR HER COPY OF THIS MEMORANDUM, A COPY OF WHICH IS ANNEXED HERETO, AND SHALL FURTHER, BY THE EXECUTION THEREOF, MAKE THOSE REPRESENTATIONS REFERRED TO THEREIN (SEE "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS").

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS LEGAL, TAX OR BUSINESS ADVICE. EACH INVESTOR SHOULD CONSULT HIS OWN ATTORNEY, ACCOUNTANT OR PURCHASE REPRESENTATIVE AS TO ANY LEGAL, TAX AND RELATED MATTERS CONCERNING THIS INVESTMENT.

THE MANAGING VENTURER SHALL FURNISH VENTURERS CERTAIN INFORMATION AND REPORTS. SEE ARTICLE VII OF THE JOINT VENTURE AGREEMENT, WHICH ACCOMPANIES THIS MEMORANDUM.

The Screaming Eagle 1H Well Joint Venture
c/o Alfaro Oil & Gas, LLC, Managing Venturer
21022 Gathering Oak, Suite 2101
San Antonio, Texas 78260
(210) 545-9600

ALTHOUGH THE MANAGING VENTURER BELIEVES THAT THE JOINT VENTURE INTERESTS MAY NOT BE SECURITIES, PRIOR TO PARTICIPATION, EACH PERSON SHOULD REVIEW THEIR APPLICABLE STATE LEGEND, IF ANY, IN THE EVENT THE INTERESTS DESCRIBED HEREIN ARE DEEMED TO BE "SECURITIES" UNDER THE LAWS OF THAT STATE.

FOR ALABAMA RESIDENTS ONLY:

THESE SECURITIES MAY BE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER THE ALABAMA SECURITIES ACT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE ALABAMA SECURITIES COMMISSION. THE COMMISSION DOES NOT RECOMMEND OR ENDORSE THE PURCHASE OF ANY SECURITIES, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

FOR ARIZONA RESIDENTS ONLY:

THESE ARE SPECULATIVE SECURITIES. THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE INTERESTED STATES SECURITIES AND EXCHANGE COMMISSION. THE COMMISSION DOES NOT PASS UPON THE MERITS OF ANY SECURITIES NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SELLING LITERATURE.

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF ARIZONA, AS AMENDED (THE "ARIZONA ACT"), AND CANNOT BE RESOLD UNLESS THE SECURITIES ARE REGISTERED UNDER THE ARIZONA ACT OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

FOR ARKANSAS RESIDENTS ONLY:

THESE SECURITIES MAY BE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 14(B)(14) OF THE ARKANSAS SECURITIES ACT AND SECTION 4(2) OF THE SECURITIES ACT OF 1933. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS NOT BEEN FILED WITH THE ARKANSAS SECURITIES DEPARTMENT OR WITH THE SECURITIES AND EXCHANGE COMMISSION. NEITHER THE DEPARTMENT NOR THE COMMISSION HAS PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THE OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

FOR CALIFORNIA RESIDENTS ONLY:

THE SALE OF THE SECURITIES, WHICH ARE THE SUBJECT OF THIS MEMORANDUM, HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE AND SECURITIES ARE EXEMPT FROM THE QUALIFICATION BY SECTIONS 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES AS DESCRIBED IN THIS MEMORANDUM ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT. THE PROGRAM DOES NOT DO BUSINESS IN SOUTH AFRICA, AND DOES NOT DO BUSINESS WITH ANY PERSON OR GROUP LOCATED IN SOUTH AFRICA.

FOR CONNECTICUT RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE BANKING COMMISSIONER OF THE STATE OF CONNECTICUT NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE CONNECTICUT UNIFORM SECURITIES ACT AND CANNOT BE RESOLD WITHOUT REGISTRATION UNDER SECTION 36-485 OF THE ACT OR AN EXEMPTION FROM REGISTRATION PURSUANT TO SECTION 36-490 OF THE ACT.

FOR FLORIDA RESIDENTS ONLY:

THE INTERESTS REFERRED TO IN THIS MEMORANDUM WILL BE SOLD TO, AND ACQUIRED BY, THE HOLDER IN A TRANSACTION EXEMPT UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT. THE INTERESTS HAVE NOT BEEN REGISTERED UNDER SAID ACT IN THE STATE OF FLORIDA. THE FLORIDA DIVISION OF SECURITIES HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM AND ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. IN ADDITION, ALL FLORIDA RESIDENTS SHALL HAVE THE PRIVILEGE OF VOIDING THE PURCHASE WITHIN THREE (3) DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY SUCH PURCHASER TO THE ISSUER, AN AGENT OF THE ISSUER, OR AN ESCROW AGENT WITHIN THREE (3) DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO SUCH PURCHASER, WHICHEVER OCCURS LATER.

FOR GEORGIA RESIDENTS ONLY:

THESE SECURITIES MAY BE ISSUED OR SOLD IN RELIANCE ON PARAGRAPH (16) OF CODE SECTION 10-5-9 OF THE GEORGIA SECURITIES ACT OF 1973, AND MAY NOT BE SOLD OR TRANSFERRED EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER SUCH ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION UNDER SUCH ACT.

FOR ILLINOIS RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECRETARY OF STATE OF ILLINOIS OR THE STATE OF ILLINOIS, NOR HAS THE SECRETARY OF STATE OF ILLINOIS OR THE STATE OF ILLINOIS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

FOR INDIANA RESIDENTS ONLY:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THERE FROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR IOWA RESIDENTS ONLY:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THERE FROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR MAINE RESIDENTS ONLY:

THESE SECURITIES ARE BEING SOLD PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE BANK SUPERINTENDENT OF THE STATE OF MAINE UNDER SECTION 10502(2)(R) OF TITLE 32 OF THE MAINE REVISED STATUTES. THESE SECURITIES MAY BE DEEMED RESTRICTED SECURITIES

AND, AS SUCH, THE HOLDER MAY NOT BE ABLE TO RESELL THE SECURITIES UNLESS PURSUANT TO REGISTRATION UNDER STATE OR FEDERAL SECURITIES LAWS OR UNLESS AN EXEMPTION UNDER SUCH LAWS EXISTS.

FOR MICHIGAN RESIDENTS ONLY:

THE SECURITIES REFERRED TO IN THIS MEMORANDUM WILL BE SOLD TO AND ACQUIRED BY THE HOLDER IN A TRANSACTION EXEMPT UNDER SECTION 402(B)(9) OF THE MICHIGAN BLUE SKY LAW. THE INTERESTS HAVE NOT BEEN REGISTERED UNDER SAID LAW AND MAY NOT BE RESOLD EXCEPT IN ACCORDANCE WITH SAID LAW. WITHIN SIX (6) MONTHS OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES, OR THE TERMINATION OF THE SUBSCRIPTION PERIOD AS SET FORTH IN THIS PRIVATE PLACEMENT MEMORANDUM, WHICHEVER FIRST OCCURS, THE MANAGEMENT OF THE COMPANY SHALL, IF SALES OF THE SECURITIES ARE MADE TO MICHIGAN RESIDENTS, PREPARE AND FURNISH TO INVESTORS A DETAILED WRITTEN STATEMENT OF THE APPLICATION OF THE PROCEEDS OF THE OFFERING.

FOR MISSISSIPPI RESIDENTS ONLY:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND GENERALLY MAY NOT BE TRANSFERRED OR RESOLD FOR A PERIOD OF ONE (1) YEAR. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR NEW MEXICO RESIDENTS ONLY:

THE SECURITIES DESCRIBED HEREIN ARE OFFERED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF NEW MEXICO (THE "ACT"). ACCORDINGLY, THE NEW MEXICO SECURITIES BUREAU HAS NOT REVIEWED THE OFFERING OF THESE SECURITIES AND HAS NOT APPROVED OR DISAPPROVED THIS OFFERING. THE NEW MEXICO SECURITIES BUREAU HAS NOT PASSED UPON THE VALUE OF THESE SECURITIES OR UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS PRIVATE PLACEMENT MEMORANDUM. THESE SECURITIES MAY NOT BE RESOLD OR OTHERWISE TRANSFERRED WITHOUT REGISTRATION UNDER THE ACT OR AN EXEMPTION THERE FROM.

FOR NEW YORK RESIDENTS ONLY:

THIS PRIVATE PLACEMENT MEMORANDUM HAS NOT BEEN FILED WITH OR REVIEWED BY THE ATTORNEY GENERAL OF THE STATE OF NEW YORK PRIOR TO ITS ISSUANCE AND USE. NEITHER THE ATTORNEY GENERAL NOR THE STATE OF NEW YORK, NOR ANY OTHER AGENCY, HAS PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATIONS TO THE CONTRARY ARE UNLAWFUL.

THIS OFFERING IS MADE TO THE PERSON NAMED ON THE COVER PAGE OF THIS MEMORANDUM ONLY ON THE CONDITION THAT SUCH PERSON IS A SUITABLE INVESTOR (SEE "TERMS OF THE OFFERING").

ANY DISTRIBUTION OF THIS MEMORANDUM TO ANY PERSON OTHER THAN THE PERSON NAMED ON THE COVER PAGE OF THIS MEMORANDUM (OR THOSE INDIVIDUALS WHOM HE MAY RETAIN TO ADVISE HIM WITH RESPECT THERETO) IS UNAUTHORIZED AND ANY REPRODUCTION OF THIS MEMORANDUM, IN WHOLE OR IN PART, OR THE DISCLOSURE OF ANY OF ITS CONTENTS WITHOUT THE PRIOR WRITTEN CONSENT OF THE CORPORATION, IS UNAUTHORIZED AND PROHIBITED.

FOR NORTH CAROLINA RESIDENTS ONLY:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THERE FROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NORTH CAROLINA RESIDENTS ARE REQUIRED TO MAKE A MINIMUM INITIAL CASH INVESTMENT OF $5,000. IN ADDITION, VENTURERS SHALL EITHER HAVE A MINIMUM NET WORTH OF $225,000 OR A MINIMUM NET WORTH OF $60,000 AND HAD DURING THE LAST TAX YEAR OR ESTIMATES THAT HE WILL HAVE DURING THE CURRENT TAX YEAR, TAXABLE INCOME OF AT LEAST $60,000 WITHOUT REGARD TO THE INVESTMENT IN THE SECURITIES. NET WORTH SHALL BE DETERMINED EXCLUSIVE OF PRINCIPAL RESIDENCE, MORTGAGE THEREON, HOME FURNISHINGS AND AUTOMOBILES.

FOR NORTH DAKOTA RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES COMMISSIONER OF THE STATE OF NORTH DAKOTA NOR HAS THE COMMISSIONER PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

FOR OREGON RESIDENTS ONLY:

THE INVESTOR MUST RELY ON THE INVESTOR'S OWN EXAMINATION OF THE COMPANY CREATING THE SECURITIES, AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED, IN MAKING AN INVESTMENT DECISION ON THESE SECURITIES.

FOR PENNSYLVANIA RESIDENTS ONLY:

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION AND EXEMPTION THEREOF.

FOR SOUTH CAROLINA RESIDENTS ONLY:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THERE FROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR SOUTH DAKOTA RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER CHAPTER 47-31 OF THE SOUTH DAKOTA SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF FOR VALUE EXCEPT PURSUANT TO REGISTRATION, EXEMPTION THERE FROM, OR OPERATION OF LAW.

EACH SOUTH DAKOTA RESIDENT PURCHASING ONE OR MORE WHOLE OR FRACTIONAL INTERESTS MUST WARRANT THAT HE HAS EITHER (1) A MINIMUM NET WORTH (EXCLUSIVE OF HOME, FURNISHINGS AND AUTOMOBILES) OF $30,000 AND A MINIMUM ANNUAL GROSS INCOME OF $30,000 OR (2) A MINIMUM NET WORTH (EXCLUSIVE OF HOME, FURNISHINGS AND AUTOMOBILES) OF $30,000. ADDITIONALLY, EACH INVESTOR WHO IS NOT AN ACCREDITED INVESTOR OR WHO IS AN ACCREDITED INVESTOR SOLELY BY REASON OF HIS NET WORTH, INCOME OR AMOUNT OF INVESTMENT, SHALL NOT MAKE AN INVESTMENT IN THE PROGRAM IN EXCESS OF TWENTY PERCENT (20%) OF HIS NET WORTH (EXCLUSIVE OF HOME, FURNISHINGS AND AUTOMOBILES).

THESE SECURITIES ARE OFFERED FOR SALE IN THE STATE OF SOUTH DAKOTA PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SOUTH DAKOTA BLUE SKY LAW, CHAPTER 47-31, WITH THE DIRECTOR OF THE DIVISION OF SECURITIES OF THE DEPARTMENT OF COMMERCE AND REGULATION OF THE STATE OF SOUTH DAKOTA. THE EXEMPTION DOES NOT CONSTITUTE A FINDING THAT THIS MEMORANDUM IS TRUE, COMPLETE AND NOT MISLEADING; NOR HAS THE DIRECTOR OF THE DIVISION OF SECURITIES PASSED IN ANY WAY UPON THE MERITS OF, RECOMMENDED, OR GIVEN APPROVAL TO THESE SECURITIES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ISSUER CONSENTS TO PERMIT INSPECTION OF ITS BOOKS, RECORDS, ACCOUNTS AND FILES BY THE DIRECTOR OF SECURITIES OR HIS DESIGNEE WITH REFERENCE TO THE SALE OF SECURITIES DESCRIBED HEREIN, AND AGREES TO PROVIDE THE DIRECTOR WITH SUCH ADDITIONAL INFORMATION WITH RESPECT TO THE SALE OF THESE SECURITIES AS HE MAY REQUIRE.

FOR TENNESSEE RESIDENTS ONLY:

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THERE FROM. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISK OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

FOR TEXAS RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE STATE OF TEXAS. THE STATE OF TEXAS DOES NOT APPROVE OR DISAPPROVE OF THESE SECURITIES AND THE STATE OF TEXAS HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE TEXAS SECURITIES ACT, BY REASON OF SPECIFIC EXEMPTION HEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THE OFFERING. THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE TEXAS SECURITIES ACT, IF SUCH REGISTRATION IS REQUIRED.

FURTHERMORE, THE PURCHASER AGREES THAT HE WILL NOT SELL THESE SECURITIES WITHOUT REGISTRATION UNDER APPLICABLE SECURITIES LAWS OR EXEMPTIONS THERE FROM.

THIS MEMORANDUM IS FOR YOUR CONFIDENTIAL USE ONLY AND MAY NOT BE REPRODUCED. ANY ACTION IN VIOLATION OF THESE RESTRICTIONS MAY PLACE YOURSELF AND THE VENTURE IN VIOLATION OF THE TEXAS SECURITIES ACT.

FOR UTAH RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE UTAH UNIFORM SECURITIES ACT. THE SECURITIES SOLD PURSUANT TO THIS MEMORANDUM CANNOT BE RESOLD UNLESS THEY ARE REGISTERED UNDER THE UTAH UNIFORM SECURITIES ACT OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE. THESE SECURITIES ARE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON TRANSFERABILITY AND RESALE AS DESCRIBED IN THE JOINT VENTURE AGREEMENT.

FOR VIRGINIA RESIDENTS ONLY:

THE VIRGINIA STATE CORPORATION COMMISSION DOES NOT PASS UPON THE ADEQUACY OR ACCURACY OF THIS DISCLOSURE DOCUMENT NOR UPON THE MERITS OF THIS OFFERING, AND THE COMMISSION EXPRESSES NO OPINION AS TO THE QUALITY OF THE SECURITIES. THE COMMON STOCK MAY NOT BE RESOLD IN THE COMMONWEALTH OF VIRGINIA WITHOUT COMPLIANCE WITH THE VIRGINIA SECURITIES ACT AND THE RULES AND BYLAWS HEREUNDER.

FOR WASHINGTON RESIDENTS ONLY:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF WASHINGTON, CHAPTER 21.20 RCW. THE ADMINISTRATOR OF SECURITIES HAS NOT REVIEWED THE OFFERING OR THE OFFERING MATERIALS CONTAINED IN THIS MEMORANDUM. THE SECURITIES SOLD PURSUANT TO THIS MEMORANDUM CANNOT BE RESOLD UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OF WASHINGTON, CHAPTER 21.20 RCW, OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE. THESE SECURITIES ARE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON TRANSFERABILITY AND RESALE AS DESCRIBED IN THE JOINT VENTURE AGREEMENT.

RESCISSION:

SECTION 517.061(12) OF THE FLORIDA SECURITIES ACT AFFORDS EACH PURCHASER WHO IS A RESIDENT OF THE STATE OF FLORIDA, THE RIGHT, UNDER THE CONDITIONS SET FORTH IN §517.061(12) OF THE FLORIDA ACT, TO WITHDRAW HIS INVESTMENT. ANY SUCH SALE IN FLORIDA IS VOIDABLE BY THE PURCHASER IN SUCH STATE EITHER WITHIN THREE (3) DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY SUCH PURCHASER TO THE ISSUER, AN AGENT OF THE ISSUER OR AN ESCROW AGENT, OR WITHIN THREE (3) DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO SUCH PURCHASER, WHICHEVER OCCURS LATER. IN ADDITION, SECTION 207(m) OF THE PENNSYLVANIA SECURITIES ACT OF 1972 PROVIDES THAT EACH PERSON WHO ACCEPTS AN OFFER TO PURCHASE SECURITIES EXEMPTED FROM REGISTRATION BY THE SAME SECTION THAT THE INTEREST IN THE PROGRAM WILL BE OFFERED UNDER IN PENNSYLVANIA, SHALL HAVE THE RIGHT TO WITHDRAW HIS ACCEPTANCE, WITHOUT INCURRING ANY LIABILITY TO THE SELLER, WITHIN TWO (2) BUSINESS DAYS FROM THE RECEIPT BY THE ISSUER OF HIS WRITTEN BINDING CONTRACT OR PURCHASE. ANY SUCH WITHDRAWAL WILL BE WITHOUT FURTHER LIABILITY TO ANY PERSON, AND THE PURCHASER WILL RECEIVE A FULL REFUND OF ALL MONIES PAID IN RESPECT OF INTERESTS. TO ACCOMPLISH THIS WITHDRAWAL; SUCH A PURCHASER NEED ONLY SEND A LETTER OR TELEGRAM TO THE PROGRAM INDICATING HIS INTENTION TO WITHDRAW. SUCH LETTER OR TELEGRAM SHOULD BE SENT AND POSTMARKED PRIOR TO THE END OF THE AFOREMENTIONED THIRD BUSINESS DAY. IF A PURCHASER INTENDS TO SEND THE LETTER, HE SHOULD DO SO VIA CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ASSURE THAT IT IS RECEIVED AND TO EVIDENCE THE TIME ON WHICH SUCH REVOCATION WAS MAILED. SHOULD A REQUEST TO WITHDRAW BE MADE ORALLY, THE PARTICIPANT SHOULD ASK FOR WRITTEN CONFIRMATION THAT HIS REQUEST HAS BEEN RECEIVED.

SUMMARY OF THE OFFERING

The following is a summary of certain information contained in this Memorandum. This summary is provided for convenience, should not be considered complete, and is qualified in its entirety by, and is subject to, the detailed information contained elsewhere in this Memorandum, or incorporated by reference into this Memorandum. Each prospective Venturer is urged to carefully read this Memorandum in its entirety, as well as all documents attached hereto or referred to herein.

General.

The Venture. Alfaro Oil & Gas, LLC, a Texas limited liability company ("Alfaro"), as Managing Venturer, will invite qualified parties to become Joint Venturers ("Venturers") in the Venture, which will be formed under Texas law and be governed by the Joint Venture Agreement and the Texas Business Organizations Code ("Texas Code"). The Venture's Operations will be conducted under the Joint Venture Agreement, which names Alfaro as initial Managing Venturer. The Venturers will have all of the rights and will be subject to all of the liabilities of a general partner under the Texas Code. The Managing Venturer shall have the authority to manage the routine day-to-day Operations, as hereinafter defined. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS," "PROPOSED ACTIVITIES," and the "JOINT VENTURE AGREEMENT" attached hereto.

Initial Capitalization. A capitalization amount representing two (2) Interests (the "Minimum Subscription Amount") must be obtained before capital of the Venture will be utilized by the Venture for any purpose. Until the potential participant is accepted into the Venture by the Managing Venturer, or for a period of five (5) business days from the receipt of this Memorandum, the potential participant shall have the right to rescind his (her) application and the Managing Venturer must return potential participant's funds, in full, upon receipt of the potential participant's written notice of election to rescind. (the "Rescission Period"). Acceptance of the potential participant as a Venturer in the Venture occurs when the Managing Venturer executes the Subscription Agreement on behalf of the Joint Venture or potential participant's funds are deposited with a financial institution. In the event that all Interests are not subscribed at the termination of the Capitalization Period or any extensions thereof, the Managing Venturer may: (i) close the Venture and conduct such operations as the Venture Capital will permit, (ii) acquire the remaining Interests; or (iii) retain the Working Interests represented by these Interests and be responsible for the costs and expenses associated therewith. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS." The Managing Venturer is not obligated to purchase any Interests.

Capitalization Period. The Capitalization Period will be the period of time during which Venturers will be accepted and Initial Capital Contributions will be received, up to and including December 31, 2012, subject to extension of up to 360 days at the Managing Venturer's sole discretion; provided, however, that the Managing Venturer, in its sole and absolute discretion, may terminate the Capitalization Period at any time prior to that date. In the event that all Interests are not subscribed at the termination of the Capitalization Period or any extension thereof, the Managing Venturer may purchase the remaining Interests or choose to acquire the remaining Working Interests represented by those Interests. In the event additional working interests in the Prospect Well become available, the Managing Venturer may acquire such additional interests on behalf of the Joint Venture, proportionally increase the number of Interests in the Joint Venture and offer them for sale on the same basis as the organizational Interests being offered; provided, however, that in no event shall the offer or sale of additional Interests dilute the per-Interest equivalent interest in the Prospect Well; and further provided that all Interests shall be offered and sold on identical terms. See "DEFINITIONS."

Payment of Initial Capital Contributions. All capital contributions are payable in cash, in full, upon application unless the Managing Venturer, in its sole discretion and on a case-by-case basis, agrees to accept funds in up to three stages. The three-stage capital contribution payments to the Venture, if permitted, would be $26,722 upon execution of the Subscription Agreement, $39,444 upon the Managing Venturer, at its sole discretion, calling for the drilling and testing portion of the Turnkey contract and $33,722 upon the Managing Venturer, at its sole discretion, calling for the completion portion of the Turnkey contract. The last two stages are due immediately upon call or as scheduled by the Managing Venturer. Venturers and their Interests will be subject to further assessments for, among other things, Completion costs, Subsequent Operations and monthly well operating costs. The capital contributions made by each Venturer will be utilized by the Venture to pay expenses and pay the required sum due Alfaro under the terms of the Turnkey contract. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS."

Turnkey Contract. In the event the Venture raises the Minimum Subscription Amount, it will commence initial operations, and enter into a Turnkey contract with Alfaro (also the Managing Venturer). In consideration for the Turnkey contract, Alfaro will pay all site preparation costs and such costs as may be necessary to drill, test and complete the work on the Well. The total cost to the Joint Venture for the acquisition of the working interests in the Well, and the work to be completed on the drilling, testing and completion of the Well will be the Turnkey contract price of $7,491,600 if all Interests are sold (the "Turnkey Price"). Alfaro, and not the Venture, will be responsible for all costs in excess of the Turnkey Price (if any) relating to the drilling of the Well. The payments made by the Venture towards the Venture's Turnkey Contract obligation to Alfaro will be taken in by Alfaro as general revenues or working capital and may be spent by Alfaro for any and all expenses of Alfaro. Alfaro may use current and future revenues from other Turnkey Contracts from other joint ventures to perform its obligations under the terms of the Turnkey Contract to the Venture. See "RISK FACTORS."

Management Fee. Alfaro shall receive reimbursement for all general and administrative expenses allocable to the Venture (including office, rent, geological, engineering, accounting, consulting, legal, secretarial, telephone, salaries and other incidental expenses), and reimbursement for any actual out-of-pocket expenses incurred on behalf of the Venture. Alfaro will also receive a fee in an amount, if any, equal to the difference between the Turnkey Price and the actual cost to Alfaro of the services it is obligated to provide pursuant to the terms of the Turnkey contract. Alfaro will also receive certain "up front" fees, including on a monthly basis, a Five Hundred and No/100 Dollar ($500.00) contribution from the Venture (plus a fee taken from each interest's net revenue interest in the amount of 0.0125% of net revenue interest) as a management fee or contribution by the Venture to cover certain overhead costs and expenses. Alfaro expects to make a profit from such fees and such fees will be paid to Alfaro no matter whether the Venture drills a dry hole, is otherwise unsuccessful or is unprofitable. See the section hereof entitled "COMPENSATION AND REIMBURSEMENT" for further information in this regard.

Initial Operations. The Joint Venture, if fully funded, will acquire to up to 71.25% of the Working Interests (a 53.4375% Net Revenue Interest) in the Prospect Well. The Well will be drilled in Gonzales and Wilson Counties, Texas. In consideration for the Turnkey contract, Alfaro will pay all acquisition and site preparation costs and such costs as may be necessary to complete the work on the Well. When the Venture commences Operations, the Venture will enter into a Turnkey Drilling Contract (herein so called) with Alfaro, pursuant to which Alfaro will, among other things, pay for the Venture's share of the costs to explore, drill, test and if warranted, complete the Prospect Well and pay all Organizational Costs, relating thereto, all for an aggregate fixed price to the Venture of $7,491,600 or $99,888.00 per Interest subscribed (the "Turnkey Drilling Price"). Subject to the terms of the Turnkey Drilling Contract, Alfaro, and not the Venture will be responsible for all costs in excess of the Turnkey Drilling Price (if any), including the Organizational Costs. The Venture's total financial responsibility to the Managing Venturer for the costs relating to the acquisition of the Prospect, drilling, testing and completion of the Prospect Well and Organizational Costs relating thereto, will be the Turnkey Drilling Price. See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES," "PROPOSED ACTIVITIES," "COMPENSATION AND REIMBURSEMENT," and "DEFINITIONS."

Additional Assessments. Subsequent to Initial Operations, Additional Assessments may be requested by the Venture for the purpose of undertaking Subsequent Operations which may include but are not limited to, drilling an additional Well. The Venturers shall have the election as to whether or not the Venture shall commence or undertake Subsequent Operations and whether or not to pay any such Additional Assessments and participate in Subsequent Operations. The Managing Venturer will contribute 1% of all Additional Assessments received as its capital contribution related thereto. See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES."

Special Assessments. Special Assessments may be requested by the Venture in the event the Venture votes to: (i) deepen a Wellbore; (ii) sidetrack a Wellbore if conditions or situations are encountered which render further drilling impractical or permits Operator to abandon the well; (iii) plug back a Wellbore and attempt completion in a different zone; (iv) conduct any activity for the purpose of enhancing production; (v) install tubing with increased production capacity; (vi) install pumping equipment; (vii) install pipelines; (viii) install any type of gas treatment facilities or production facilities; or (ix) complete more than one zone. The costs for which Special Assessments may be made have not been considered or included by Alfaro in its determination of the Turnkey Prices. See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES – Special Assessments."

Other Assessments. If the Venturers determine by a Vote that the Venture requires additional capital for the

purpose of continuing Venture Operations, each Venturer shall, within fifteen (15) business days (or within 48 hours if the rig which will effect the work covered by the Assessment is on location) after the Vote, contribute the additional funds which, when paid, shall be treated as capital contributions to the Venture. Each Venturer shall contribute his or her pro rata share of the additional capital based on the amount of initial capital contributed unless the Venturers unanimously agree upon a different basis for determining the amount for each Venturer's contribution. The procedure for calling such Other Assessments, as well as the rights and obligations of Venturers upon failure of a Venturer to contribute such assessments, shall be the same as determined herein with respect to Additional Assessments. See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES – Other Assessments."

Operating Agreement. Upon the Venture commencing Operations, the Venture will enter into an Operating Agreement with an Operator in good standing In the State of Texas (the "Operator"), as Operator of the Prospect Well. The standard Operating Agreement typically used for such operations provides that a majority of the Working Interest owners have the right to appoint or change the Operator. Because the Venture will be a majority Working Interest owner in the Prospect Well, assuming the standard Operating Agreement is used, the Venture will have sufficient Working Interests to change the Operator of the Prospect Well should it choose to do so.

Suitability Standards. Investors' subscriptions will only be accepted if they meet certain qualifications. Representations are required from investors that they are acquiring the Interests for investment and not with a view towards resale or distribution thereof and are able to meet certain personal financial criteria, including, without limitation, that the investor is an "Accredited Investor," as defined by rule 501(a) of Regulation D under the Securities Act of 1933, as amended. Investment in the Interests is suitable only for investors who do not need liquidity in this investment and can afford to lose all or substantially all of their investment.

The Managing Venturer and/or its Affiliates may purchase Interests with respect to which it or its Affiliates will be a Venturer subject to the same obligations and limitations as any other Venturer, except for certain limitations relating to transferability of such Interests. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS," "COMPENSATION AND REIMBURSEMENT" and "JOINT VENTURE AGREEMENT" attached hereto.

Costs of Organization. When the Venture commences Initial Operations, Alfaro will be responsible for payment of costs pursuant to the terms of the Turnkey Contract. Alfaro will be responsible for all costs in the event the Venture does not commence Initial Operations or Initial Capitalization is not received. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS."

Management. The management of the Venture's participation in Operations and other business of the Venture shall be the responsibility of all of the Venturers. The Joint Venture Agreement provides that Alfaro is the Managing Venturer, and the Venturers, by a Vote of 51% in interest, may remove the Managing Venturer. All decisions concerning the day-to-day affairs and Operations of the Venture by the Managing Venturer, during the period so designated, shall be binding upon each of the Venturers and the Venture. See "PROPOSED ACTIVITIES - Initial Operations."

Managing Venturer's Capital Contribution. The Managing Venturer will contribute an aggregate of 1% of Initial Capital in cash or services as its initial capital contribution to the Venture. Alfaro's (or an Affiliate's) participation in additional Working Interests, if any, may be outside the Venture as an industry participant.

Compensation and Reimbursement. Alfaro will receive a 1% interest in the Joint Venture. Alfaro will also receive a fee in an amount, if any, equal to the difference between the Turnkey Drilling Price and the actual cost to Alfaro of the services it is obligated to provide pursuant to the terms of the Turnkey Drilling Contract from which Alfaro will also pay all Offering and Organizational Costs. Alfaro cannot reasonably predict the amount of profit, if any, it will receive under the Turnkey Contract as the Well has not been drilled or completed; however, Alfaro anticipates that it will receive a profit and to the extent Alfaro receives a profit, that profit could be significant. Such profit will be made by Alfaro even if the operations of the Venture result in a Dry Hole. Alfaro or Affiliates may receive what may be considered additional compensation in connection with commissions, operating agreements, reimbursement of direct expenses paid for the Venture, and other transactions that may arise in connection with the operations of the Venture. See "COMPENSATION AND REIMBURSEMENT."

Participation in Costs and Revenues From Initial Operations. The Venture, upon full funding, intends to acquire up to 71.25% of the Working Interests in the Prospect Well, such interest being the economic equivalent of approximately a

53.4375% Net Revenue Interest. The Venture will be responsible for paying 75.0% of the drilling, testing and if warranted, the completion costs of the Well, as the Well will be subject to an aggregate of approximately 25% Royalty Interests and an assigned working interest of 3.75% to other industry partners. The Venturers will be allocated 75.0% of operational expenses thereafter. The Venturers will be allocated 75.0% of all items of revenue allocable to the Venture, minus managing venturer compensation as listed in the Joint Venture Agreement. See Joint Venture Agreement, "RISK FACTORS - Specific Risks of the Venture: Nature of the Liability of a Venturer" and "PARTICIPATION IN COSTS AND REVENUES WITHIN VENTURE."

Distribution of Revenues. Subject to a Vote to the contrary, net Venture revenues, if any, which in the sole judgment of the Managing Venturer are not required to meet obligations of the Venture or held for working capital reserves shall be distributed as often as practicable to the Venturers.

Application of Proceeds. Assuming initial capitalization of the Interests described herein, it is anticipated that the proceeds will be expended by the Venture in accordance with the chart provided under "SOURCE AND APPLICATION OF PROCEEDS."

Reports to Venturers. The Managing Venturer will furnish activity operating reports to the Venture members and statements with estimated expenses from time to time.

The Prospect Well and Potential Substitution. The Prospect Well will consist of a single Wellbore to be drilled, tested and if warranted completed in Gonzales and Wilson Counties, Texas. The Venture intends to participate in the drilling, testing and if warranted, the completion of the Well to a totaled measured depth of approximately 11,750 feet with an approximate vertical depth of 6,050 feet and a lateral depth of approximately of 5,700 feet to test the Eagle Ford Shale Formation The Managing Venturer may recommend that the Venture complete the Prospect Well at a different depth, choose a different well site or abandon the Prospect Well if: (i) granite or other practically impenetrable substance is encountered, (ii) a condition in the hole occurs which renders further drilling impractical, or (iii) the Managing Venturer determines that it is a commercially reasonable decision for the Venture under the conditions or situation encountered. If the jurisdiction in which the Prospect Well is located declares a moratorium on issuing drilling permits within its geographical limits there is a potential for substitution. If after sixty (60) days from the date the Venture has received all its initial capital contributions the city has not removed its drilling permit moratorium, or for any other reason, then the Managing Venturer may, at its sole discretion, substitute a different well which the Managing Venturer, it its sole discretion believes has similar attributes as the Prospect Well. See "PROPOSED ACTIVITIES - The Prospect Well," "COMPENSATION AND REIMBURSEMENT" and "DEFINITIONS."

Tax Status. The Managing Venturer believes that the Venture should be classified as a partnership for U.S. federal income tax purposes. However, the Venture does not intend to seek a ruling from the Internal Revenue Service (the "IRS" or the "Service") with respect to whether it will be treated for U.S. federal income tax purposes as a partnership rather than an association taxable as a corporation. In addition, the Venture presently does not intend to seek a ruling from the IRS or any state or local tax agency on any other federal, state or local tax matter that may arise in connection with the formation, organization and/or operation of the Venture. See "TAX ASPECTS."

Conflicts of Interest. The Managing Venturer (and Affiliates) is and intends to become a venturer and/or an operator in other entities engaged in operations similar to that of the Venture or otherwise make or arrange for similar operations as those contemplated for the Venture. Such activities may place constraints on the time that Alfaro and its officers may have to devote to Venture activities.

The Turnkey contract to be entered into between the Venture and Alfaro nor the Turnkey Prices have been the subject of arm's-length negotiations and will exceed the amount paid by Alfaro for its proportionate amount of costs to drill, test and complete the Prospect Well. The Turnkey Price may exceed the cost to Alfaro of acquiring the working interests in the Prospect Well and performing the services pursuant to the Turnkey Drilling Contract. To the extent the Turnkey price for the Drilling Contract exceeds Alfaro's costs Alfaro will make a profit. Such profit will be made by Alfaro even if the operations of the Venture result in a Dry Hole. The payments made by the Venture towards the Venture's Turnkey Contract obligation to Alfaro will be taken in by Alfaro as revenues or working capital and may be spent by Alfaro for any and all expenses of Alfaro. Alfaro may use current and future revenues from other Turnkey Contracts from other joint ventures to perform its obligations under the terms of the Turnkey Contract to the Venture. See "COMPENSATION AND REIMBURSEMENT," "PRIOR ACTIVITIES" and "CONFLICTS OF INTEREST."

Additional Available Information. Additional information about the Venture and access to all documents relating to the Venture business may be given to each prospective investor upon request to the Managing Venture at 210-545-9600. The Venture will make available the opportunity to ask questions of, and receive answers from the Managing Venturer concerning any matter relevant to the Interests.

A prospective Venturer is urged to read the balance of this Memorandum which details the information in this summary and contains other important information about the Venture. Copies of the Operating Agreement will be furnished upon request.

DEFINITIONS

Certain terms as used herein have special meanings that are set forth below and other terms of general use in the industry are also defined below for your reference.

"ADDITIONAL ASSESSMENTS" shall mean assessments of the Venturers requested by the Venture to fund Subsequent Operations.

"AFFILIATE" with respect to the Managing Venturer shall mean (i) any person or entity directly or indirectly owning, controlling or holding, with power to vote, ten percent (10%) or more of the outstanding voting securities of the Managing Venturer; (ii) any entity, ten percent (10%) or more of which outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the Managing Venturer; (iii) any person or entity directly or indirectly controlling, controlled by or under common control of the Managing Venturer; and (iv) any officer, director or partner of the Managing Venturer For purposes of this Memorandum and accompanying documentation Alfaro is not an Affiliate of the Venture as the Venture is controlled by its members and not Alfaro nor is Alfaro controlled by the Venture.

"CAPITALIZATION PERIOD" shall mean the period of time during which Venturers shall be accepted up to and including December 31, 2012, unless extended by the Managing Venturer for a period of not more than three hundred sixty (360) days; provided, however, that the Managing Venturer, in its sole and absolute discretion, may terminate the Capitalization Period at any time prior to such date.

"CODE" shall mean the Internal Revenue Code of 1986, as from time to time amended, and any federal legislation that may be substituted there for.

"COMPLETION" of a well is an indefinite term. In the context of the Venture, Completion shall mean the cleaning out of a well after reaching a specified depth, and/or conducting those processes or operations which the Managing Venturer decides on behalf of the Venture to employ in a good faith effort to make a well capable of producing oil and/or gas in commercial quantities in one potentially productive zone or formation or determines that it will not produce oil and/or gas in commercial quantities.

"DRY HOLE" shall mean a well that the Managing Venturer or the Venturers by Vote determine is not capable of producing oil and/or gas in commercial quantities. A well may qualify as a Dry Hole either before or after Completion.

"EXPENSES AND COSTS" shall mean all of the costs and expenses of the Venture, including but not limited to the following, each of which shall have the special meaning set forth opposite each such term:

(a) "ORGANIZATIONAL COSTS" shall mean the aggregate of (i) expenses for printing and mailing material used in connection with the applications for participation in the Venture and/or collection of assessments; (ii) allocable salaries and expenses of employees of the Managing Venturer assisting with the organization and formation of the Venture and/or the initial capitalization and/or collection of assessments; (iii) charges of depositories in connection with the Interests; (iv) attorneys' and accountants' fees in connection with the organization and formation of the Venture and the preparation of this Memorandum and/or the collection of assessments; (v) "General and Administrative Expenses" of the Managing Venturer during the Capitalization Period; and (vi) any and all other expenses incurred by the Venture or the Managing Venturer in connection with the formation of the Venture, the applications for participation in the Venture, and the collection of assessments, if any.

(b) "OPERATING EXPENSES" shall mean the customary expenses of operations of oil and/or gas Well, and producing and marketing the oil and/or gas there from, including but not limited to the costs of reworking or workover or similar expenses relating to any well, but excluding Drilling or Completion Costs or the depletion, depreciation or amortization thereon, or the expenses for recompletion in or deepening to another potentially productive zone.

(c) "GENERAL AND ADMINISTRATIVE EXPENSES" shall mean all customary and routine legal, accounting, geological, engineering, travel, office rent, telephone, compensation to officers and employees, and other incidental expenses of the Managing Venturer necessary to the conduct of Venture Operations.

"FARMOUT" shall mean an agreement whereby the Venture would agree to assign its interest in a specific leasehold or working interest owned by it to other parties while retaining some part of its original interest (such as an overriding royalty interest, oil and/or gas payment, offset acreage, or other type of interest) subject to the drilling of one or more specified Well or other performance by the other parties as a condition of the assignment.

"INITIAL OPERATIONS" means any Joint Venture activity commenced in connection with the acquisition of the Venture's interest in the Lease and the drilling and Completion of the Prospect Well and the production of oil and/or gas there from, if any. The term "INITIAL OPERATIONS", however, does not include deepening, plugging back, side tracking, or any activities to complete the well in more than one zone, the installation of any pumping equipment all of which are covered by "Special Assessments".

"INITIAL PRODUCTION" or "I.P." shall mean the early production of an oil or gas well, recorded after the recovery of oil or other fluids used to fracture and stimulate the target formation have been completed, used as a potential indicator of the maximum ability of a well to produce upon completion, without subsequent reservoir damage; provided, however, that, historically, the actual sustained production of oil or gas realized from a well is usually less, on an ongoing basis, than Initial Production; and, provided, further, that there can be no assurance that the actual production to be realized from a well on an ongoing basis following the conclusion of all completion activities with respect thereto will be equal to Initial Production.

"INITIAL INTEREST PAYMENT" shall mean that portion of Initial Capitalization due upon application by a Participant Venturer ($26,722 per Interest).

"INITIAL VENTURE CAPITAL" shall mean the total capital contribution to the Venture actually paid by the Managing Venturer and the Venturers with respect to the acquisition of Interests or interests in the Venture, including completion, but excluding Additional Assessments.

"JOINT VENTURE AGREEMENT" or "AGREEMENT" shall mean the Joint Venture Agreement between Alfaro as the Managing Venturer, and the Venturers, pursuant to which the Venture has been formed, a copy of which is attached hereto, together with all amendments thereto.

"LANDOWNER'S ROYALTY INTEREST" shall mean an interest in production or the proceeds there from, to be received free and clear of all costs of drilling, development, operation, or maintenance, reserved by a landowner upon the creation of an oil and gas lease.

"LEASE" shall mean the oil, gas or mineral leases representing up to 75% of the Working Interest in the Prospect Well.

"MANAGING VENTURER" shall refer to Alfaro (or its successor or replacement) when acting in the capacity of the Managing Venturer of the Venture.

"MINIMUM SUBSCRIPTION AMOUNT" shall mean the sale and acceptance by the Managing Venturer of two (2) Interests in the amount of $199,276.

"NET PROCEEDS" shall mean Proceeds reduced by the Venture's adjusted basis in such oil and gas property for capital accounts, as determined under Section 8.2.2 of the Joint Venture Agreement.

"OPERATIONS" shall mean any Joint Venture activity related to (i) acquiring the Prospect site; (ii) drilling the Prospect Well; (iii) Completing, equipping, reworking, capping or plugging the Prospect Well; and (iv) conducting any activity incident to the foregoing as may be deemed necessary by the Venturers in furtherance of a Joint Venture purpose.

"OPERATOR" shall mean an operator in good standing in the State of Texas.

"OVERRIDING ROYALTY INTEREST" shall mean an interest in the oil and gas produced pursuant to a specified oil and gas lease or leases, or the proceeds from the sale thereof, carved out of the Working Interests granted by the landowners in said lease(s), to be received free and clear of all costs of drilling, development, operations or maintenance.

"PROCEEDS" shall mean the amount realized by the Venture on the disposition of oil and/or gas.

"PRODUCTION DECLINE" shall mean the characteristic of Well in most formations, similar to certain wells in other parts of the country, to decline over time in production from a variety of factors, some of which may be corrected or ameliorated. Over the effective producing life of a given well, production levels are expected to decline in accordance with published industry data.

"PROPORTIONATE SHARE" with respect to the Venturers shall mean that share described in Article VIII of the Joint Venture Agreement.

"PROSPECT" or "PROSPECTS" shall mean the oil, gas and mineral leasehold estate or estates, or undivided interest therein, and other contract rights and interests in oil, gas and minerals on which the drill site is proposed to be acquired pursuant to an assignment of the Lease. Nothing herein shall prevent another venture or other entity organized by the Managing Venturer or any of its Affiliates from acquiring a prospect which, subsequent to such acquisition, is determined to be in the same geological reservoir as any Prospect owned by the Venture.

"PROSPECT WELL" shall mean the Well proposed to be drilled and, if appropriate, completed on the Prospect as a part of Initial Operations.

"SPECIAL ASSESSMENTS" shall mean those assessments for the cost of the following:

(i) deepening a Wellbore;

(ii) sidetracking a Wellbore if conditions or situations are encountered which render further drilling impractical or permits Operator to abandon the well;

(iii) plugging back a Wellbore and attempt completion in a different zone;

(iv) conducting any activity for the purpose of enhancing production;

(v) install tubing with increased production capacity

(vi) installing pumping equipment;

(vii) installing pipelines;

(viii) installing any type of gas treatment facilities or production facilities;

(ix) completing any zones in addition to the first completion.

"SUBSEQUENT OPERATIONS" shall mean activities not part of Initial Operations or activities covered by Special Assessments that the Venture deems necessary to develop the Prospect Well.

"SUBSTITUTE VENTURER" shall mean any person not previously a Venturer who purchases Interests from

a Venturer in accordance with the terms of the Joint Venture Agreement. All Venturers shall have the status of general partners. After admission, all Substitute Venturers shall have all of the rights of a Venturer.

"TEXAS CODE" means the Texas Business Organizations Code, as from time to time amended.

"TURNKEY CONTRACT" shall mean the agreement to be entered into by and between Alfaro, in its individual capacity, and the Venture providing for the obligation of Alfaro to bear the costs of drilling, testing and completing, in one zone, the Prospect Well at a fixed or turnkey price subject to the terms of the Turnkey Contract.

"TURNKEY PRICE" shall mean the amount to be paid by the Venture to Alfaro to perform the Turnkey Contract.

"INTERESTS" shall mean interests in the Joint Venture authorized under the Joint Venture Agreement and allocated to the Venturers as shown on the books and records of the Venture.

"VENTURE" shall mean this Joint Venture partnership formed under the laws of the State of Texas and governed by the Joint Venture Agreement and the Texas Code.

"VENTURERS" shall mean all persons or entities which are a party to the Joint Venture Agreement and who participate in Interests and are accepted as Venturers pursuant to the Joint Venture Agreement. The term "Venturer" shall mean any of the Venturers and includes the Managing Venturer unless the context requires otherwise.

"VENTURERS' INITIAL CAPITAL" shall mean the total capital contribution to the Venture actually paid by the Venturers, but excluding Additional Assessments, and excluding the 1% Managing Venturer's Contribution.

"VOTE" refers to the right of the Venturers, subject to all limitations set forth in the Joint Venture Agreement, to decide any matter that may be submitted for decision by the Venturers in accordance with the express written terms of the Joint Venture Agreement or under provisions of the Texas Code. Each Venturer, including the Managing Venturer, shall be entitled to cast one vote for every Interest held of record by him (her) on the date when notice is given for a matter to be voted upon. Except as otherwise expressly provided in the Joint Venture Agreement, a Vote of the Venturers owning 51% of the Interests shall be sufficient to pass and approve any matter submitted to a Vote.

"WELLBORE" and "WELLBORE ONLY" shall mean the hole drilled by the bit (borehole) and not an interest in the surrounding leases. The Venture will acquire its working interest in the Wellbore only.

"WORKING INTEREST" shall mean the interest in the oil and gas leasehold estate (the Prospect Well) which is subject to some portion of the expense of drilling, development, operation, or maintenance.

RISK FACTORS

Participation in the Venture involves a high degree of financial risk. An individual contemplating such participation should consider the following special risk factors in addition to those discussed elsewhere in this Memorandum.

Specific Risks of the Venture.

Managing Venturer And Venture Operations. The Venture is newly formed and has limited financial resources. Upon Initial Capitalization, funds will only be sufficient to pay the Turnkey Price to drill, test and, if successful, complete the Prospect Well. Alfaro was formed in March 2008 for the purpose of participating in the oil and gas industry. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS," "PRIOR ACTIVITIES," and "MANAGEMENT."

Use of Turnkey Contract Revenues and Turnkey Obligations. Alfaro will be responsible for all costs associated with the acquisition of the Venture's Working Interests. The payments made by the Venture towards the Venture's Turnkey Contract obligation to Alfaro will be taken in by Alfaro as general revenues or working capital and may be spent by Alfaro for any and all expenses of Alfaro. Alfaro may use current and future revenues from other turnkey

contracts from other joint ventures to perform its obligations under the terms of the Turnkey Contract to the Venture. To the extent that Alfaro does not have sufficient working capital to meet those obligations, the Venture and therefore the Venturers could be adversely affected and the Venturers could lose some or all of their investment in the Prospect Well. While the Venture will not be a signatory to the Participation Agreement and thus should have no direct liability to third parties for the costs of Initial Operations in excess of the Turnkey Price to the extent that Alfaro is unable to meet such liability; the Venture could be adversely affected and the Venturers could lose some or all of their capital contribution or be required to pay additional sums to complete the Initial Operations of the Venture in order not to lose their working interests in the Prospect Well.

Operating Agreement. Upon termination of the Capitalization Period, assuming the Venture commences Operations, the Venture will enter into an Operating Agreement which will govern the relationship, responsibilities and obligations of the parties with respect to Operations for the Prospect Well. The Operating Agreement will also appoint as operator an operator in good standing in the State of Texas for the Prospect Well who, along with Alfaro, will be responsible for overseeing all drilling and completion operations on the Prospect Well (the "Operator"). A majority of the Working Interests Owners have the right to appoint or change the Operator and determine various operations for the Prospect Well. Because the Venture will be a majority Working Interest owner in the Prospect Well, it will have sufficient Working Interests to change the Operator of the Prospect Well.

Non-Transferability, Lack of Liquidity of Interest and Limited Qualification of the Venture. A Venturer has the status of a general partner under the provisions of the Texas Code. A Venturer's right in specific Venture property is not assignable except in connection with the assignment of rights of all of the Venturers in the same property. Venturers should not expect to be able to readily liquidate their interest, if needed, and, therefore, the Interests may not represent satisfactory collateral for a loan. See "LIMITED TRANSFERABILITY AND RIGHTS OF FIRST REFUSAL." Article VI of "JOINT VENTURE AGREEMENT" and the "SUBSCRIPTION AGREEMENT" attached hereto.

As Joint Venture interests, no public market exists for the Interests and it is anticipated that none will ever exist. The transferability provisions in the Joint Venture Agreement make the Interests a non-liquid venture. Participation in this Venture is limited to persons qualifying under the suitability standards set forth in "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS" and "QUESTIONNAIRE" attached hereto.

Nature of the Liability of a Venturer. Each of the Venturers shall have the status of a joint venturer in a joint venture, which is a general partnership formed for a specific business purpose. Venturers shall therefore have unlimited joint and several liability for all of the debts, obligations, acts, omissions, risks and liabilities of the Joint Venture, which Alfaro believes will be ameliorated by the provision of necessary and proper insurance coverage with respect to Operations relating to the Prospect Well. The general discussions herein concerning partnerships also apply to the Venture.

The Texas Code provides, among other things, that every partner of a general partnership is an agent of such partnership for the purposes of its business, and that the act of every partner for apparently carrying on in the usual way the business of such partnership binds the partnership, unless the partner so acting has in fact no authority to act for the partnership in the particular matter in question, and the person with whom he or she is dealing has knowledge of the fact that he or she has no such authority. The Texas Code further provides that a general partnership (and each partner thereof) is liable to third parties for losses, injuries or penalties arising out of the wrongful acts or omissions of any partner acting in the ordinary course of the business of such partnership or acting with the authority of his or her co-partners.

The Joint Venture Agreement provides that no Venturer (other than the Managing Venturer or by a Vote of the Venturers) shall have any right or authority to take any action on behalf or in the name of the Venture or to obligate the Venture to any third party for any reason or in any matter whatsoever, and that each Venturer shall indemnify, defend and hold harmless the Venture and all other Venturers (including Alfaro as the Managing Venturer) from and against any loss, claim, cause of action, item of damages, expense or cost (including attorneys' fees and court costs) arising directly or indirectly out of any act of such Venturer in breach of the Joint Venture Agreement, in an amount not to exceed such Venturer's total capital contributions to the Venture. Further, the Joint Venture Agreement provides that any act of any Venturer inconsistent with the delegated rights and authority of the Managing Venturer shall constitute a breach thereof by the Venturer so acting, rendering such Venturer liable for damages and subject to expulsion from the Venture.

Alfaro believes that the joint and several liability of each Venturer for all debts, obligations, acts, omissions,

risks and liabilities of the Venture will be ameliorated by the provision of necessary and proper insurance coverage with respect to the Operations of the Venture, notwithstanding that it is unlikely that the Joint Venture will be named as an insured, to the extent that such insurance can be obtained at reasonable cost to the Venture. There is no assurance that all risks and liabilities that exist or may arise can be adequately insured against. See "RISK FACTORS - General Risks of Oil and Gas Ventures: Uninsured Risks."

The Venture may be dissolved by, among other things, a Vote of the Venturers or a cessation of Venture business. Upon dissolution, the Venture is not terminated, but continues until the winding up of Venture affairs is completed. Where the dissolution of the Venture occurs, each Venturer is liable, except under certain circumstances, to his or her co-Venturers for his or her share of any liability created by any Venturer acting for the Venture as if the Venture had not been dissolved. Absent an agreement to the contrary by and between a Venturer, the Venture, the creditors of the Venture and the persons or venture continuing the business of the Venture, the dissolution of the Venture does not of itself discharge the existing liability of any Venturer. In the event that the business of the Venture is continued without the liquidation or the winding-up of its affairs, the creditors of the first or dissolved venture are also creditors of the venture so continuing the business. Under the Joint Venture Agreement, only the Managing Venturer may conduct Operations relating to creditors whether before or after dissolution of the Venture.

The Joint Venture Agreement provides that each Venturer waives his or her right to cause or obtain the dissolution and liquidation of the Venture, except upon the occurrence of certain specified events, or to withdraw from the Venture for any reason, and provides, except upon the occurrence of certain special events, for the continuation of the Venture upon the occurrence of any event which would otherwise give rise to the dissolution and liquidation of the Venture under applicable law. Furthermore, each person proposing to become a Venturer shall represent and warrant to the Venture, as an express condition to the acceptance of his or her application that he or she possesses the requisite financial suitability and capacity to participate in the Venture upon the terms and conditions established therefor, and that he or she is not, as of the date of any such application and has not been at any time during the ninety (90) day period immediately preceding the date of such proposed participation, insolvent or an adjudicated bankrupt under the federal bankruptcy statutes.

Wellbore Only. The Joint Venture will acquire an interest in a single drill site (the Wellbore Only) and not the remainder of the lease(s) on which the Wellbore is located. As a result, subject to spacing limitations imposed by the State, offset Wells could be drilled in close proximity to the Venture's Prospect Well, and the Venture or the Venturers may only acquire through participation in a new Joint Venture any interest in such offset well. It is possible that an offset Well could produce from the same formation and/or reservoir from which the Prospect Well produces (if the Venture Well is successful), and thus, reduce the total production (and corresponding revenue), to be recovered by the Venture.

Tax Matters.

General Considerations. Although participation in the Venture is intended to appeal primarily from an economic standpoint, albeit with risk, with the hope of finding oil and/or gas in commercial quantities, favorable U.S. federal income tax treatment presently available with respect to oil and gas drilling and production may have a material effect on the desirability of participating in an oil and gas drilling program for certain taxpayers.

Any deductions for federal income tax purposes available to the Venturer resulting from his or her participation in the Venture and the year in which such deductions are taken may have a material effect upon the economic result afforded him or her. The benefit to a particular Venturer of various deductions will depend on the nature and extent of other income, deductions and credits of that Venturer. For this reason, each prospective Venturer is urged to consult his or her personal tax advisor, as the information contained herein is solely for disclosure purposes and should not be interpreted or construed as tax advice.

All federal income tax matters discussed herein are subject to change without notice by legislation, administrative action, and judicial decision. Such changes could deprive the Venture and its Venturers of certain tax benefits they might otherwise receive and may or may not be retroactive with respect to transactions occurring prior to the effective date thereof. See "TAX ASPECTS - Possible Changes In Federal Tax Laws."

Tax Classification of the Venture. The availability of the tax benefits of participating in the Venture depends upon the classification of the Venture as a "partnership" rather than an association taxable as a corporation for

U.S. federal income tax purposes. Alfaro believes that under current law the Venture should be treated as a partnership for U.S. federal income tax purposes, and not as an association taxable as a corporation. This conclusion is not binding on the IRS, and is conditioned on the maintenance of certain conditions. Should the Venture be treated as "an association taxable as a corporation" for federal income tax purposes, (i) income, gains, losses, deductions and credits of the Venture would not flow through to the Venturers, (ii) the taxable income of the Venture would be subject to the federal income tax imposed on corporations, and (iii) distributions would be treated as corporate distributions to the Venturers and could be taxable as dividends or capital gains. See "TAX ASPECTS - Tax Status of the Joint Venture."

Tax Liabilities May Exceed Cash Distributions. If the Venture is treated as a partnership for U.S. federal income tax purposes, each Venturer must include in its own taxable income for a taxable year its share of the Venture's income, gain, loss, deduction and credit for the year, whether or not cash proceeds are actually distributed to it. As a result, a Venturer could be required to pay U.S. federal income tax based on its allocable share of Venture taxable income regardless of whether the Venturer receives a cash distribution. The Managing Venturer cannot guarantee that the Venture will be able to make cash distributions to the Venturers to permit them to pay their respective tax liabilities as a result of being Venturers in the Venture. In addition, the Venturers have no right to demand distributions of Venture income. If a Venturer's tax liability from the Venture exceeds the cash that it receives from the Venture, the Venturer will have to use cash from other sources to pay its tax liability.

Allocations for Income Tax Purposes. The Venture intends to allocate among the Venturers their allocable shares of income, gain, loss, deduction and credit in accordance with the terms of the Joint Venture Agreement. Such allocable shares shall include all of the Venture's intangible drilling and development costs ("Intangible Costs") arising from Initial Operations that are paid from the Venturers' capital contributions. While the Venture intends to make such allocations, no assurance can be given that the IRS will not challenge the allocations of federal income tax items and assert that they are properly allocable among the Venturers in some other manner. If the Service were successful in such a challenge, the Venturers could be liable for additional taxes, penalties and interest. See "TAX ASPECTS - Allocations."

Depletion Allowance. The Managing Venturer believes that the Venturers should be able to take cost or, if they qualify, percentage depletion deductions with respect to the Venture's producing oil and gas properties. Percentage depletion will only be available to the Venturers that qualify as "independent producers" by reason of the "independent producer exemption." Each Venturer must individually determine his or her eligibility to qualify as an "independent producer." Therefore, there can be no assurance that any particular method for determining depletion deductions, including percentage depletion, will be available to any particular Venturer.. See "TAX ASPECTS - Depletion."

Passive Activity Limitations. The availability of tax losses generated to the Venturers by the Venture to offset the Venturers' income from other sources may be limited due to the loss limitation rules that apply to passive activities. The definition of a "passive activity" generally encompasses all rental activities as well as all activities with respect to which the taxpayer does not "materially participate." Notwithstanding this general rule, the term "passive activity" does not include "any working interest in any oil or gas property which the taxpayer holds directly or through an entity which does not limit the liability of the taxpayer with respect to such interest." There can be no assurance that the Service will not challenge the Venture's conclusions with regard to whether the Venture owns a "working interest;" whether ownership of a working interest through the Venture limits the Venturers' liability with respect to such working interest; or whether the Venture's activities constitute passive activities subject to the passive activity loss limitation rules. If losses generated by the Venture are classified as "passive," such losses would generally only be available to offset the Venturers' income from other passive sources, if any. See "TAX ASPECTS - Limitations on Passive Activity Losses."

Taxable Income. To the extent Venturers are able to deduct losses generated by the Venture, the tax basis of each Venturer's interest will be reduced. Amounts realized by a Venturer on the sale of his or her Joint Venture interest may produce taxable gain to the extent that the amount realized for tax purposes exceeds the Venturer's adjusted tax basis in its Venture interest. In addition, costs such as intangible drilling costs, depreciation and depletion are subject to recapture, as ordinary income, on disposition by the Venture of oil and gas properties at a gain, or upon disposition by a Venturer of an interest in the Venture at a gain. Thus, the tax deductions afforded in the early years may only defer to later years a Venturer's overall federal income tax liability. See "TAX ASPECTS."

Nondeductible Costs. A material portion of each Venturer's subscription will be used for costs and expenses that are not currently deductible. In addition, there can be no assurance or guarantee that the IRS will agree with

the Venture's categorization of its costs and expenses between currently deductible costs, costs that must be capitalized and amortized and non-deductible expenses. If the IRS were to successfully argue that certain costs and expenses that are initially deducted by the Venturers are non-deductible capital expenses, each Venturer could owe additional taxes and be liable for penalties and interest. See "TAX ASPECTS".

Taxable Income for Tax Exempt Venturers. The Venture may generate taxable income for Venturers that are generally exempt from taxation. Certain entities that are otherwise exempt from U.S. federal income tax, such us individual retirement accounts and annuities ("IRAs"), qualified plans, and charitable organizations are nonetheless taxed on "unrelated business taxable income" ("UBTI") of $1,000 or more that they earn in a given year. All or substantially all the income from the Venture's operations will constitute UBTI and may give rise to tax liability to an otherwise tax exempt investor. For Venturers that invest with money from their IRAs, it is possible that the earnings from the Venture could be subject to tax twice: once when amounts are earned by the Venture and then again when distributions are made from the IRA to the investor. For certain tax exempt entities, such as charitable remainder trusts and charitable remainder unit trusts (collectively, a "CRT"), the receipt of any UBTI during a taxable year will cause the CRT to become taxable on all of its income from all sources for the taxable year. Accordingly, all tax exempt prospective investors are urged to consult their own tax advisors regarding the tax consequences to them of investing in the Venture.

Internal Revenue Service Audit. If the IRS audits the Venture, there can be no assurance that the IRS will not challenge certain deductions allocated to the Venturers or the Venture's classification of its costs. If the Service were successful in such a challenge, the Venturers could be liable for additional taxes, penalties and interest. See "TAX ASPECTS - Audit of Tax Returns."

State and Local Tax Aspects. Certain states and localities in which Venturers may reside or where the Venture conducts business may levy income taxes for which such Venturers may be liable in respect to their share of Venture income and it may be necessary for such Venturers to file income tax returns with such states or localities to report such income. In addition, as a result of the Venture's operations, the Venture may be required to pay various state and local taxes. The Venture's payment of such state and local taxes will reduce the Venture's cash that is otherwise available to distribute to the Venturers. In addition, the discussion of the tax aspects of participating in the Venture in this Memorandum is limited to certain material U.S. federal tax considerations. Therefore, each potential Venturer is urged to consult his or her tax advisor regarding the impact of state and local tax law on an investment in the Venture.

Tax Treatment May Change. All federal tax matters discussed herein are subject to change without notice by legislation, administrative action, and judicial decision.

Management Fees. The payment of management fees by the Venture for services rendered thereto may be deductible by the Venturers but only to the extent that such payments are ordinary and necessary business expenses and are reasonable in amount. The Managing Venturer cannot guarantee that the management fee or any of the other costs and expenses incurred by the Venture will be deductible. See "TAX ASPECTS" - Management Fees."

There have recently been some legislative proposals specifically concerning the tax treatment of exploring for and producing oil and gas, and some of those proposals reduce or eliminate some of the tax benefits described in this Memorandum. At this time it is not possible to predict whether any such proposals will become law. Therefore, each prospective Venturer is urged to consult with its own tax advisor regarding the impact that a change in the U.S. federal tax law could have on its decision to participate in the Venture. See "TAX ASPECTS - Possible Changes In Federal Tax Laws."

Failure to Pay Special Assessments Will Result in a Venturer Abandoning Their Interest in the Venture and Loss of Their Initial Capital Contribution. The Venturers may be called upon to pay Special Assessments to pay for the Venturers' allocable portion of a special operation to be undertaken by the Well working Interest holders. The payment of Special Assessments may be subject to a Vote by the Venturers. The failure of a Venturer to contribute his (her) proportionate share of a Special Assessment within seven (7) business days from delivery of a notice by telegram or overnight delivery (or within 48 hours if the rig is on location) shall be deemed to be a negative vote for the Special Assessment and a request that his (her) interest in the Venture be abandoned, and he (she) shall be effectively withdrawn as a Participant in the Venture with no further benefits, rights or obligations with respect to the sharing of income, gains and losses with respect to the Venture. Upon abandonment, a Venturer will lose all their initial investment in the Venture (as detailed in Section 2.4.3 of the Joint Venture Agreement, attached hereto as Exhibit A). See "ADDITIONAL

ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES".

Failure to Pay Additional Assessments and Risk of Capital Shortages. Because Venturers are not subject to mandatory additional assessments for additional capital contributions to the Venture for Subsequent Operations, capital shortages could result in a loss of substantial opportunities to the Venture and, therefore to the Venturers. See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES" and "CONFLICTS OF INTEREST."

Limited Financial Resources of the Managing Venturer. The Managing Venturer has limited financial resources. In the event that the actual costs of Initial Operations relating to the Prospect Well exceed the Turnkey Prices for such activities by a significant amount, Alfaro's financial ability to meet such obligations may be impaired. In the event that Alfaro is unable to secure funds or pay for such costs, the Venture may be required to pay for such costs or face losing its Working Interests in the Prospect Well.

Ability to Accept Risks. Participation in the Venture will be offered solely to prospective venturers who are willing and can afford to accept and bear for an indefinite period of time the substantial risks described herein, who do not require immediate income from their capital contributions in the Venture, and whose annual recurring income is subject to the highest federal income tax rate. See "PLAN OF ORGANIZATION AND SUITABILITY STANDARDS."

Lack of Diversity. Subscription amounts should be sufficient to pay for Initial Operations with respect to the Prospect Well only. To the extent the well is a dry hole, Venturers should be prepared to lose their entire investment.

Interest Price. The Interest Price has been fixed by Alfaro based on its estimates of contemplated financial needs to perform the Turnkey Contract for the Prospect Well, provide for its operating costs and if its revenues exceed its costs, a profit. No investment banker or other appraiser was consulted regarding such price and terms. The Interest Price bears no relationship to the potential value of the Prospect Well.

Interest Obligations. For each Interest purchased, the Venturer will have an obligation to pay all costs associated with that Interest including, but not limited to, drilling and, if appropriate, Completion costs. If a Venturer purchases additional Interests or fractions thereof, they must bear the additional costs including additional Completion Assessments attributable to each additional Interest or fraction therein purchased.

Capitalization Period Extensions. Extension(s) of the Capitalization Period may be made by the Managing Venturer in the exercise of its sole and absolute discretion. Thus, the exact time frame within which Venture Operations will commence cannot be determined with any degree of certainty.

Sharing of Risks. The Venturers will bear all of the financial risk associated with the Venture's portion of the Working Interests in a nonproductive or marginally productive Venture well, and may be liable for Venture obligations in excess of their capital contributions. See "PARTICIPATION IN COSTS AND REVENUES WITHIN VENTURE." In addition, each of the Venturers shall have the status of general partners in a general partnership, and shall therefore have joint and several liability for all of the debts, obligations, acts, omissions, risks, and liabilities of the Venture. See "RISK FACTORS - Specific Risks of the Venture: Nature of the Liability of a Venturer."

Conflicts of Interest. There are conflicts of interest inherent in the activities of the Venture. Alfaro and/or its Affiliates presently act and intend to act in the future as general partners and joint venturers of other partnerships and ventures and intend to manage other drilling ventures and own and operate other oil and gas properties on its own behalf as well as on behalf of others. Any conflicts of interest could adversely affect the Venture and/or the interests of the Venturers. See "CONFLICTS OF INTEREST."

Alfaro's Dependency on Key Officers. Alfaro's ability to manage the Joint Venture affairs is predominantly dependent upon Alfaro's principal officers and employees. See "MANAGEMENT."

Surrounding Production. Although there have been wells drilled and completed on acreage in the vicinity of the Prospect Well, the production from such Well should not be deemed a guarantee that the Prospect Well will be a commercially productive well. See "PROPOSED ACTIVITIES" and "GEOLOGICAL INFORMATION" under separate cover.

Geological Opinions, Maps, Statistics, and Projections. The Managing Venturer has received and is providing herewith certain geological opinions, reserve or production estimates, and well information regarding the Prospect Well and surrounding region. The Managing Venturer cannot guarantee the accuracy or correctness of any of the projections, estimates or interpretations made by Alfaro or consultants to Alfaro, including its geologists. The Managing Venturer shall not be liable or responsible for any loss, costs, damages, or expenses incurred or sustained by any Venturer based upon their good faith reliance upon information contained or interpreted from statistics or opinions expressed by others. The production map may not identify dry holes or offsetting wells, if any, may only refer to individual well type logs, and may convey possible fault and fracture lines for illustration purposes only and not as a predictor of things to come for the Venture. The Managing Venturer cannot assure, nor does it guarantee, the surrounding well positions, if any, fault or fracture lines, bore hole depths or lengths, formation intervals, identified operators, the well names or amounts of production or reserves, if any, even though the Managing Venturer believes such information comes from reliable sources.

Reliance on Projections and/or Opinions. No agents or representatives of the Managing Venturer or its Affiliates have been authorized to make any projections or express any opinion, oral or otherwise, concerning future events, perceived fact, personal opinion, anticipated production, availability of tax benefits, or expected returns, except as set forth within this Memorandum. Oral opinions that differ from the written data within this Memorandum have not been authorized and should not be relied upon under any circumstances. No further reliance should be placed on any written communications and industry reports that are not consistent with this Memorandum. Opinions or projections of possible current or future events are based upon various subjective determinations and assumptions. All projections by their very nature are subject to uncertainty and, accordingly, a prospective Venturer will be subject to risk that any such interpretations or projections will not be reached or that the information used by Alfaro for such projections may be incomplete or that any underlying assumptions may prove to be inaccurate. The potential Venturer will be required to warrant that he has not relied upon or made his investment decision upon any of the projections, estimates or other forward-looking statements contained in this Memorandum or in oral conversations with officers of Alfaro.

Disputes With Vendors and Possible Liens. It is anticipated that the Operator will contract directly with various providers of goods and/or services necessary to conduct the Operations of the Venture. Neither the Venture nor the Venturers will contract directly with such parties and the Venture will be a non-operator under the terms of an Operating Agreement to be entered into between the Venture and the Operator. From time to time, disputes may arise between the Operator and certain vendors with whom it contracts for goods and services. When a dispute cannot be resolved amicably, a lawsuit may be filed to resolve the dispute. Vendors who have provided goods and/or rendered services to the Operator with respect to the Prospect Well may be permitted, under applicable law, to file material man's and/or mechanic's liens with respect to the Prospect Well, the filing of which may be necessary in order to perfect a lien claim pending the resolution of the dispute. Such a lien could permit a vendor, upon the exercise of judicial or administrative remedies, to suspend the disbursement of production proceeds, to seize the interests of participants or to seize the Prospect Well and its associated equipment in order to secure or pay the amount of such claim. If a given lien is ultimately determined to be valid, it could ultimately permit the vendor to satisfy its claim out of production proceeds, the value of the mineral leases or the value of the Prospect Well and associated equipment. Under such circumstances, the Venture, even though having paid the Operator, will be adversely affected.

Recovery of Capital Contributions. Because drilling activity may be stronger in a specific section of the country, prices of goods and services utilized to engage in drilling and in the cost of leasehold interests suitable for a project of this type may be higher even though prices may be lower on a nationwide basis. If such a situation occurs in the area of the Prospect Well, participation in the Venture may be more expensive than might otherwise be the case. In addition, because of the amount of capital required to engage in Operations, payout, if any, or that point in time at which the Initial Capital of the participants has been returned to them in full, if any, could be lengthened, depending upon the amount of production obtained. There are no assurances that the price of crude oil or natural gas will remain at current levels, nor can there be any assurance that production levels can be sustained from the Prospect Well in quantities sufficient to reach payout.

Suitability. The Interests are not suitable for, and will not knowingly be sold to, anyone who does not meet the suitability standards imposed by the Joint Venture and its Managing Venturer. Each purchaser of Interests will be required to represent that he (she) meets such standards. Participation in the Joint Venture requires careful and informed study with respect to each prospective Venturer's individual tax and financial position and, accordingly, each prospective

purchaser is urged to consult with their accountant or financial planner prior to making a decision to acquire Interests in the Venture.

Natural Hazards. Natural hazards involved in the drilling of well in locations such as that of the Prospect Well include destruction from hurricanes, tornadoes, or other storms, and the risk to persons and property interest therein. Other natural hazards include unusual or unexpected formations, pressures, blowouts and other unanticipated geological conditions. Substantial liability for environmental damage, bodily injury or damage to or loss of equipment can result from any of such hazards. The Joint Venture may be subject to liability for pollution and other similar damages or may lose portions of its properties due to hazards against which it cannot insure or for which insurance proves inadequate. Such liabilities to third parties could reduce the funds available for exploration and development, result in loss of Venture property or result in personal liability of Venturers if the liability exceeds insurance proceeds and the Venture's assets.

Compensation and Reimbursement to Managing Venturer Regardless of Profitability. The Managing Venturer and Affiliates may receive certain fees, revenues and other compensation, payments and reimbursements which may result in a profit to Alfaro regardless of profitability or loss of the Joint Venture. See "PARTICIPATION IN COSTS AND REVENUES WITHIN VENTURE." "COMPENSATION AND REIMBURSEMENT" and "CONFLICTS OF INTEREST."

Drilling Risks. Exploration for oil and gas is speculative by its very nature, and involves a high risk of loss. A large number of Well are dry holes; and others do not produce oil or gas in sufficient quantities to make them commercially profitable to complete and/or produce. Many risks are involved that experience, knowledge, scientific information and careful evaluation cannot avoid. Since initial capitalization will be sufficient to drill only the Prospect Well, the drilling of a dry hole would mean that the Venturers would receive no return from the Venture in regard to the nonproductive Prospect Well. Therefore, Venturers must be prepared to lose substantially all of their capital contribution as there can be no assurance that drilling the Prospect Well will result in oil or gas production or that production, if obtained, will be profitable for Venturers. Oil and gas wells sometimes experience Production Decline that is rapid and irregular. Initial production from a well (if any) does not accurately indicate any consistent level of production to be derived there from. The selection of leases and drill sites and the drilling of Well are not exact sciences and the results of such drilling cannot be predicted. Initial potential of a well as determined by a test which is run following Completion will not ordinarily be determinative of "actual" production and should not be considered indicative of the amount of oil or gas a well can be expected to produce on a sustained basis. The ratio of productive oil and gas wells has been low when compared to the total number of wells drilled. Even though a well may be drilled in an area adjacent to known and existing production, there is no assurance that such drilling and completing within the oil and gas sands or formations, or that such sands or formations if located, will have the attributes necessary for commercial production sufficient to recoup the capital expended or generate any returns in the effort of placing such well in production. A well may also be rendered dry or non-commercial during either drilling or Completion due to natural, technical, or mechanical considerations. There can be no assurance all or any of the objective formations in depth or length can be encountered even after the initiation of Completion procedures. Should a well be successfully drilled to the required depth or length and tests thereafter indicate hydrocarbon-bearing formations to warrant Completion, there is no assurance that production will be obtained even after Additional Assessments are expended or that any or all sums expended thereon would be recouped through potential production, if any. The value of a well, any underlying reserve of oil or gas, and the amount and rate of future production cannot be determined with reasonable accuracy unless and until the well has a history of continuous production over a period of time sufficient to provide a reservoir engineer with data upon which an evaluation may be made.

Environmental Liability. Various local, state and federal environmental control agencies may impose regulations that could have a significant impact on the Operations of the Venture or could substantially increase the costs of operating a well. Natural hazards and risks associated with the drilling of the Prospect Well include, among other things, unusual or unexpected formations, shales, temperatures, salt water or fresh water, pressures, and other unanticipated conditions. Substantial uninsured liabilities to lessors, third parties, or governmental agencies may be incurred in connection with the drilling, operation, or abandonment of a well. In addition, numerous environmental liability statutes are potentially applicable to well operations and these statutes may carry permitting, redemption, and penalty provisions that could have a substantial adverse impact upon the Venture and the Venturers and may involve direct uninsured liability to the Venturers. Such expenses may reduce the funds available for distribution to the Venturers, result in a loss of oil and/or gas revenues or properties and/or require the Venture to pay additional amounts over and above the amount of the Venture's initial capitalization.

Accessibility to Pipelines and/or Transportation Systems. The Managing Venturer has no present agreement to use any pipeline for transmission of oil or natural gas, nor has any amount been budgeted for construction of a transmission line for gas or a storage or transportation system for oil, if any. It is anticipated that construction of a pipeline, a production facility, or the availability of transportation systems may be undertaken if and when oil and/or gas is produced from the Prospect in quantities deemed sufficient by the Venture and the Managing Venturer to justify such construction or availability; gas transmission lines, production facilities or other transportation system(s) are not part of, or included in the Turnkey Contract and would be the subject of Special Assessments. Production from a well and ultimate income to be derived there from will be dependent, in part, upon the successful completion of a pipeline hookup or attainment of a satisfactorily negotiated transportation system which in turn may be dependent on the availability of funds to the Venture for such purpose(s). See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES."

Possible Reduction of The Venture's Interest. Title to the lease comprising the Prospect has been reviewed by representatives of the Managing Venturer. However, no such review can assure that the title is free from defects. To the extent that defects to the Prospect title exist and cannot be remedied, it is possible that the Venture's Working Interests and/or net revenue interests in the Prospect Well may be reduced. If such interests are reduced, the Venturers will not be entitled to recover from the Venture or the Managing Venturer any amounts contributed for the Venturer's proportionate share of the costs of Operations attributable to the lost interest, unless the defect can be established prior to the time the Venture commences such Operations. If any portion of the Venture's Working Interest or net revenue interest in the Prospect is reduced or lost due to failure of title, the operating results and/or the financial returns, if any, to the Venture, and thus the Venturers, could be adversely affected.

Investors Will Agree In The Subscription Agreement To Submit Any Disputes To Arbitration, Which May Limit Remedies Available To Investors. As part of the Subscription Agreement that each prospective investor must sign and deliver in order to subscribe for their Interests, each investor will agree to submit any disputes arising in connection with the interpretation or enforcement of the Subscription Agreement and the transactions effected thereby, including the purchase and sale of the Interests to mandatory arbitration proceedings to be held in San Antonio, Texas. Submitting any such dispute, which may include claims for violations of applicable securities laws, to arbitration, may have the effect of limiting or eliminating the nature and extent of remedies available to investors in the event any such dispute may arise.

General Risks of Oil and Gas Ventures.

Speculative Ventures; Few Wells Profitable. Exploration for gas and oil production is highly speculative and few wells are successful to the point where participants have received cash payouts which exceed the participants' cash investment.

Regulation and Marketability of Gas or Oil Discovered. The availability of a ready market for oil or gas, if any, discovered on the Prospect Well and the price obtained there for will depend upon numerous factors, including the extent of domestic production and foreign imports of gas and/or oil, the proximity and capacity of pipelines, intrastate and interstate market demands, the extent and effect of federal regulations on the sale of oil and/or natural gas in interstate and intrastate commerce, and other government regulations affecting the production and transportation of oil and/or gas. In addition, certain daily allowable production constraints may change from time to time, the effect of which cannot be predicted by management. There is no assurance that the Venture will be able to market any oil or gas found by it at favorable prices, if at all. See "COMPETITION, MARKETS AND REGULATIONS."

Pollution. Various local, state and federal environmental control agencies may impose regulations, which could have a significant impact on the operations of the Venture or could substantially increase the costs of operating a well.

Delay in Distributions of Income. Unavailability of or delay in connection with pipelines or other transportation systems, unavailability of or delay in obtaining necessary materials for completion of a well, repayment of loans (if any) obtained by the Venture to finance drilling or other activities, delays in obtaining satisfactory contracts and connections for oil and/or gas Well, delays in obtaining division orders and other circumstances may delay the distribution of income, if any, for significant periods after discovery of oil or gas, if any.

Possible Shortages. In the past, increased drilling activities have, from time to time, created shortages of certain equipment necessary in the drilling and/or completion of Well. Due to a shortage of such equipment and general inflationary trends, the prices at which equipment was available escalated during such periods. Although not presently anticipated, there is a possibility that further price escalations will increase the Venture's operating expenses, thus reducing the distributions, if any, available to the Venturers.

Competition. There are numerous individuals, partnerships, and major and independent oil companies with which the Venture will be in competition which have greater financial and technical resources than those available to the Venture. Such an inferior competitive position could have a material adverse affect upon the productivity, marketability and profitability of the Venture. See "COMPETITION, MARKETS, AND REGULATION."

Uninsured Risks. The Venture's Operations will be subject to all of the operating risks normally connected with producing oil and gas, such as blow-outs and pollution, which could result in the Venture incurring substantial losses or liabilities. Although the Joint Venture Agreement provides for the securing of such insurance as the Managing Venturer and Operator deem necessary and appropriate, certain risks are uninsurable and others may be either uninsured or only partially insured because of high premium costs or other reasons. In the event the Venture incurs uninsured losses or liabilities, the Venture's funds available for exploration and development will be reduced, and Venture assets may be substantially reduced or lost completely. For a discussion of the Venturers' liability, see "RISK FACTORS - Specific Risks of the Venture: Nature of the Liability of a Venturer."

Possibility of Unsuccessful Workover and Subsequent Operations. It is possible that the techniques proposed to be utilized by the Operator to engage in workover and Subsequent Operations will be unsuccessful, and crude oil and natural gas will not be produced for the Prospect Well in commercial quantities, if any. There can be no assurances that any Subsequent Operations or fracture stimulation or any workover will result in commercial production.

Risk Regarding Completion. Many Well that produce logs that show hydrocarbon-bearing formations may not possess sufficient reserves or bottom hole pressures to produce returns, even after Completion. There can be no assurance that even after Completion procedures commence that such efforts will result in commercial production.

THE JOINT VENTURE

The Venture. The Venture shall have the status of a general partnership under the laws of the State of Texas, and the Venturers shall have the status of general partners therein. The Managing Venturer does not believe the interests in this joint venture are securities as that term is defined in the federal and state securities laws. Rather, the Managing Venturer believes that this is a true joint venture or partnership as those business associations are treated in the Texas Business Organizations Code, Williamson v. Tucker, 645 F.2d 404 (5th Cir. 1981), and Securities Exchange Commission v. Howey, 328 U.S. 293 (1946). See "RISK FACTORS - Specific Risks of the Venture: Nature of the Liability of a Venturer."

The principal office for the Venture is 21022 Gathering Oak, Suite 2101, San Antonio, Texas 78260. The Venture is a separate legal entity from Alfaro and its Affiliates. There will be no commingling of funds between the Venture and Alfaro or any Affiliate thereof except as to payment due Alfaro for expenses or the Turnkey Contract. The rights of the Venturers will be defined by the Texas Code and the Joint Venture Agreement. Venturers will acquire an interest in the issuer Venture and not in Alfaro.

PLAN OF ORGANIZATION AND SUITABILITY STANDARDS

Eligible Potential Venturers. The Managing Venturer reserves the right to refuse to accept the application of any person. Participation in the Venture is intended only for persons meeting certain minimum suitability standards and who are able to make the representations contained in the Questionnaire and Subscription Agreement annexed hereto. Although the managing Venturer believes that the interests sold herein are not securities the Interests are being offered in accordance with the requirements and provisions of Rule 506 Regulation D. Although the Managing Venturer may, on behalf of the Venture, engage the services of a FINRA licensed broker to act as a placement agent to sell the Interests offered herein it is currently anticipated that the Offering will be sold by officers of the Issuer. The officers will not receive commissions for the sale of the Interests herein.

Managing Venturer's Capital Contributions. The Managing Venturer shall contribute to the Venture, as its initial capital contribution, the sum of 1% of Initial Venture Capital. Such contribution may be in cash, property or services.

Venturers' Capital Contributions. All capital contributions are payable in cash, in full, upon application unless the Managing Venturer, in its sole discretion and on a case by case basis, agrees to accept funds in up to three stages. The three-stage capital contribution payments to the Venture, if permitted, would be $26,722 upon execution of the Subscription Agreement, $39,444 upon the Managing Venturer, at its sole discretion, calling for the drilling and testing portion of the Turnkey contract and $33,722 upon the Managing Venturer, at its sole discretion, calling for the completion portion of the Turnkey contract. The last two stages are due immediately upon call or as scheduled by the Managing Venturer at the Managing Venturer's sole discretion. Venturers and their Interests will be subject to further assessments for, among other things, Completion costs, Subsequent Operations and monthly well operating costs. The capital contributions made by each Venturer will be utilized by the Venture to pay expenses and pay the required sums due Alfaro under the terms of the Turnkey contract. When a capitalization amount representing the Minimum Subscription Amount has been received and accepted by the Managing Venturer, the Venture may begin utilizing the capital of the Venture for Initial Operations. At such time, the Managing Venturer shall continue to accept applications for participation in the Venture until the Venture is fully capitalized or the Capitalization Period expires. After the sale of one Interest, if insufficient application funds are received from Venturers to drill the Prospect Well, the Managing Venturer may purchase sufficient Interests or Working Interests to meet the remaining minimum capital obligations.

In the event any additional Working Interests in the Prospect Well become available to the Venture, the Managing Venturer may acquire such additional interests on behalf of the Venture, proportionately increase the number of Interests in the Joint Venture, and offer them for sale on the same basis as the original Interests being offered; provided, however, that in no event shall the offer and/or sale of additional Interests dilute the per Interest equivalent interest in the Prospect Well; and further provided, that all Interests shall be offered and sold on identical terms.

Participation in Interests by Managing Venturer. Alfaro, as Managing Venturer and its Affiliates and/or its officers, directors or employees, may participate in the initial capitalization of the Venture on the same terms and conditions (except transferability) as all other Venturers and thereby acquire interests in addition to the 1% initial Managing Venturer's interest. Alternatively, it may participate in the Working Interests as an industry participant. Such participation may be made for the purpose of completing the initial capitalization. See "LIMITED TRANSFERABILITY AND RIGHTS OF FIRST REFUSAL."

Organizational Costs. All Organizational Costs of the Initial Capitalization will be paid by Alfaro pursuant to the Turnkey Contract when the Venture is fully capitalized and commences Operations. If the minimum capitalization amount is not received, Alfaro will be responsible for the payment of all Organizational Costs.

Suitability Standards. Prospective Venturers must be qualified as determined by the Managing Venturer, in its sole discretion, from the signed Questionnaire delivered to it by the prospective Venturer prior to the time of participation in the Venture and from such other information available to the Managing Venturer. The Managing Venturer will consider the following factors in determining the suitability of a prospective Venturer:

(1) Prospective Venturer (together with his or her spouse, if any) has a net worth of not less than $200,000 (excluding home, automobiles and furnishings); or

(2) Prospective Venturer (together with his or her spouse, if any) has a net worth of not less than $100,000 (excluding home, automobiles and furnishings) and some portion of taxable income for the previous year was, or some portion of estimated taxable income for the current year will be subject to federal income tax at the highest marginal tax bracket applicable to such year; and

(3) Such other factors as are more fully set forth in the Questionnaire attached hereto.

Notwithstanding anything to the contrary herein, Interests are not a suitable investment for charitable remainder trusts and charitable remainder Interest trusts. Therefore, Interests will not be sold to charitable remainder trusts and charitable remainder Interest trusts, and such trusts will not be considered to be suitable to participate in the Venture.

LIMITED TRANSFERABILITY AND RIGHTS OF FIRST REFUSAL

The Joint Venture Agreement provides that a Venturer (except in certain circumstances where the Managing Venturer or its Affiliates acquire Interests) is obligated to hold his or her interest and is prohibited from transferring, assigning or otherwise disposing of same without first satisfying certain conditions. One such condition provides that the Managing Venturer may request an opinion of counsel (the cost of which shall be borne by the transferor) to the effect that such transaction will not result in certain adverse tax consequences or violations of law. In addition, the Interests are subject to certain rights of first refusal. Finally, no person will be admitted as a Substitute Venturer without prior written approval of the Venturers by a Vote, except in the case of the Managing Venturer acting as a Venturer. (See Article VI to the "JOINT VENTURE AGREEMENT").

No Right of Presentment. Neither the Venture nor the Managing Venturer has obligated itself to repurchase, redeem or allow withdrawal, has not established a procedure for repurchasing, redemption or withdrawal, and has no present plan to repurchase, redeem or allow withdrawal of any Interests from the Venturers, other than the abandonment provisions relating to failure to pay certain assessments.

ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES

Special Assessments.

Special Assessments may be requested by the Venture in the event the Venture votes to:

(i) deepen a Wellbore;

(ii) sidetrack a Wellbore if conditions or situations are encountered which render further drilling impractical or permits Operator to abandon the well;

(iii) plug back a Wellbore and attempt completion in a different zone;

(iv) conduct any activity for the purpose of enhancing production;

(v) install tubing with increased production capacity;

(vi) install pumping equipment;

(vii) install pipelines;

(viii) install any type of gas treatment facilities or production facilities;

(ix) complete any zones in addition to the first completion.

The costs for which Special Assessments may be made have not been considered or included by Alfaro in the determination of the Turnkey Price. The costs to be incurred by the Venture and covered by the Special Assessments shall be Alfaro's actual costs incurred in conducting such activities. The failure of a Venturer to contribute his or her proportionate share of a Special Assessment within seven (7) business days from delivery of a notice by telegram or overnight delivery (or within 48 hours if the rig which will effect the work covered by the Special Assessment is on location) shall be deemed to be a negative vote for the activity covered by such Special Assessment and a request that his or her interest in the Joint Venture be abandoned, and he or she shall be effectively withdrawn as a Participant in the Joint Venture with no further benefits, rights or obligations with respect to the sharing of income, gains and losses with respect to the Prospect Well.

Operating Expenses.

Venturers and their Interests will also be subject to assessments for their proportionate share of monthly operating expenses for a producing Venture Well pursuant to the Joint Venture Agreement for the Venture. Such expenses may be

deducted from distributions; but Venturers are responsible for paying their pro-rata share of operating expenses regardless of whether the revenue generated by the Venture is sufficient to cover such costs.

Additional Assessments.

The Managing Venturer anticipates that Initial Venture Capital will be sufficient to pay for the drilling and Completion of the Prospect Well only. However, following the expenditure or commitment of Initial Venture Capital, it is possible that the Venturer or the Operator will deem it appropriate to conduct Subsequent Operations on the Prospect. Everything other than Initial Operations and those matters for which a Special Assessment may be made should be considered to be Subsequent Operations of the Venture and may require financing greatly in excess of the Initial Venture Capital.

If the Venture determines that a Subsequent Operation, for which Additional Assessments will be requested, should be recommended, written notice of the proposed operation will be given to the Venturers. The notice given by the Venture to the Venturers will specify the nature and purpose of the Subsequent Operation, will describe the effect of not participating in the Subsequent Operation, and estimate each Venturer's proportionate share of the expenditure necessary to finance the Subsequent Operation. Within fifteen (15) business days (48 hours if the rig is on location) after the notice is sent by telegram or overnight delivery, a Venturer may elect by Vote to participate in the Subsequent Operation described in the notice by sending to the Managing Venturer payment in the amount of such Venturer's proportionate share of the expenditure necessary to finance the Subsequent Operation, as such share is more fully described in the notice. The Venturer's payment must be postmarked no later than fifteen (15) business days (48 hours if the rig is on location) after the initial notice and must be received by the Managing Venturer no later than twenty (20) days after such notice.

Venturers who elect to Vote to participate in Subsequent Operations (hereinafter referred to as "Participating Venturers") will do so by paying their proportionate share of the Additional Assessment required from the Participating Venturers for the expenses for the Subsequent Operations. The Managing Venturer will estimate the complete cost of the Subsequent Operation and each Venturer's proportionate share of the expenses thereof. The Managing Venturer may choose to request payment in full of such expenses or any portion thereof. The estimate shall not be conclusive as to the expenses incurred and additional contributions by Participating Venturers for the Subsequent Operation may be necessary. Such additional amounts will be billed by the Managing Venturer to the Participating Venturers, but such amounts shall not be deemed an asset of the Venture until received.

In the event Additional Assessment proceeds are not paid to the Managing Venturer by the due date stated in the notice or the bill sent to the Venturers (who previously agreed to pay same), and if the Managing Venturer (or other Venturers) does not elect to pay the unpaid assessment, the Managing Venturer shall have the right, but not the obligation, to abandon the proposed Subsequent Operation and refund the Additional Assessments previously paid by the Venturers. In that event, the Venture may sell or Farmout, to any person or entity, the Prospect (subject to an appropriate vote of the Venturers) or portions thereof upon such terms as the Venture shall deem appropriate. A Venturer shall initially have no obligation to pay any of the requested Additional Assessments. If a Venturer agrees to pay any portion of an Additional Assessment with respect to any particular Subsequent Operation and fails to contribute his or her entire proportionate share of all Additional Assessments called for by the Joint Venture with respect to such Subsequent Operation, within the time specified in any request therefore, such Venturer shall thereby be deemed a Non-Participating Venturer with respect to such Subsequent Operation only.

In addition, any Non-Participating Venturer remaining in default of his or her payment obligations may, in the sole discretion of the Managing Venturer, be precluded from participating in future Subsequent Operations of the Venture. The interest in any further Subsequent Operations that would otherwise have been available to a Non-Participating Venturer shall be at the option of the Managing Venturer either (i) acquired by the Managing Venturer, (ii) offered to the remaining Participating Venturers (or Substitute Venturers) on a proportionate basis, or (iii) offered to third parties.

Although a Non-Participating Venturer remaining in default of his or her payment obligations may have no right to participate in any further Subsequent Operations, the Managing Venturer may, in the exercise of its sole and absolute discretion, allow any or all Non-Participating Venturers to participate in further Subsequent Operations. However, such Non- Participating Venturer shall not be given such opportunity until all Participating Venturers in the Subsequent Operation immediately preceding the further Subsequent Operation have had an opportunity to continue to participate in such Subsequent Operation. Nothing shall prevent the Managing Venturer from electing to exclude any Non-Participating Venturer from any further Subsequent Operations.

Other Assessments.

If the Venturers determine that the Venture requires additional capital for the purpose of continuing Venture Operations, each Venturer shall, within fifteen (15) business days (48 hours if the rig is on location) after the Vote, contribute the additional funds, which, when paid, shall be treated as Capital Contributions to the Venture. Each Venturer shall contribute his or her pro rata share of the additional capital based on the amount of initial capital contributed unless the Venturers unanimously agree upon a different basis for determining the amount for each Venturers' contribution. The procedure for calling for such Other Assessments, as well as the rights and obligations of Venturers upon failure of a Venturer to contribute appropriate Assessments, shall be the same as determined herein with respect to Additional Assessments. In addition, even if such an Assessment is not made, all Venturers shall remain liable for Venture obligations in accordance with the Texas Code.

Payment of Costs Through Utilization of Revenues.

To the extent the Venture may have its own revenues; revenues may also be utilized in the payment of certain costs incurred by the Venture, including Operating Expenses. To the extent Venture revenues are utilized and reinvested, federal income tax liability and/or deductions may accrue to the Venturers even though no funds are actually distributed to the Venturers. Revenues will be utilized typically for short-term activities such as Completion of a Prospect Well in progress and the payment of certain equipment costs.

Natural Occurrences or Other Emergencies.

Not withstanding any other provision to the contrary, the Managing Venturer, or one of its Affiliates, may utilize Venture funds from all sources to undertake any Operations necessary to protect, save, restore or preserve the Prospect Well in the event of a natural occurrence or other emergency that requires such Operations to be performed before such time that a Vote of the Venturers may be taken and when the delay of such Operation may cause: (i) a significant increase in the cost of such Operations, (ii) Completion, drilling or other future Operations to be unfeasible, (iii) the loss of the Venture's interest in the Prospect Well or (iv) the Venture to be subject to liability to third parties.

PROPOSED ACTIVITIES

Initial Operations.

Initial Operations. The Joint Venture, if fully funded, will initially be entitled to up to 71.25% of the Working Interests (a 53.4375% Net Revenue Interest) in the Prospect Well. The Prospect Well will consist of a single Wellbore to be drilled, tested and if warranted completed in Gonzales and Wilson Counties, Texas. The Venture intends to participate in the drilling, testing and if warranted, the completion of the Well to a totaled measured depth of approximately 12,000 feet with an approximate vertical depth of 6,050 feet and a lateral depth of approximately of 5,700 feet to test the Eagle Ford Shale Formation. The Managing Venturer may recommend that the Venture complete the Prospect Well at a different depth, choose a different well site or abandon the Prospect Well if: (i) granite or other practically impenetrable substance is encountered, (ii) a condition in the hole occurs which renders further drilling impractical, or (iii) the Managing Venturer determines that it is a commercially reasonable decision for the Venture under the conditions or situation encountered. If the city in which the Prospect Well is located declares a moratorium on issuing drilling permits within the city limits there is a potential for substitution. If after sixty (60) days from the date the Venture has received all its initial capital contributions the city has not removed its drilling permit moratorium, or for any reason, then the Managing Venturer may, at its sole discretion, substitute a different well which the Managing Venturer, it its sole discretion believes has similar attributes as the Prospect Well. When the Venture commences Operations, the Venture will enter into a Turnkey Drilling Contract (herein so called) with Alfaro, pursuant to which Alfaro will, among other things, pay for the Venture's share of the costs to drill, test and if warranted complete the Prospect Well and pay all Organizational Costs, relating thereto, all for an aggregate fixed price to the Venture of up to $7,491,600 or $99,888 per Interest subscribed, plus the capital contributed by the Managing Venturer (the "Turnkey Drilling Price"). It is intended that the Venture will drill one of the three Wells at a time. In the event the Venture does not raise all the capital necessary to drill, test and complete all three Wells then the Venture will only drill the number of Wells that it has capital to accomplish and the Turnkey Drilling Price and Turnkey Contract will be adjusted accordingly. Subject to the terms of the Turnkey Drilling Contract, Alfaro, and not the Venture will be responsible for all costs in excess of the Turnkey Drilling Price (if any), including the Completion

and Organizational Costs. The Venture's total financial responsibility to the Managing Venturer for the costs relating to the acquisition of the Prospect, drilling of the Prospect Well, testing, completion in one zone and Organizational Costs relating thereto, will be the Turnkey Drilling Price.

See "ADDITIONAL ASSESSMENTS AND FINANCING OF ADDITIONAL VENTURE ACTIVITIES," "PROPOSED ACTIVITIES," "COMPENSATION AND REIMBURSEMENT," and "DEFINITIONS."

The Prospect Well.

The following is a brief description of the leasehold interests that make up the Prospect Well and the manner of the proposed acquisition of the Prospect Well and the drilling of the wellbore to a totaled measured depth of approximately 11,750 feet with an approximate vertical depth of 6,050 feet and a lateral depth of approximately of 5,700 feet to test the Eagle Ford Shale Formation. The Venture intends to acquire up to 71.25% of the Working Interests in the Prospect Well, representing a 53.4375% Net Revenue Interest. The Prospect Well is located in Gonzales and Wilson Counties, Texas. The Prospect Well will be subject to an aggregate of up to 25% in Royalty Interests and a carried working interest of 3.75% to other industry partners.

The Prospect Well consists of a single wellbore located in Gonzales and Wilson Counties, Texas and are more particularly designated and described as follows:

449.248 acres located in the J.J. Tejida Survey, Abstract No. 316 (Wilson County) and No. 448(Gonzales County) approximately one mile northwest of the City of Nixon, Gonzales and Wilson Counties, Texas.

A Venture's investment in the Prospect Well entitles said Venturer to a proportionate share in the proceeds, if any, from the sale of Products which are produced from the wellbore of the Well out of the objective geological formation or any other formations or zones produced from said wellbore if the Venture votes and pays to complete additional zones within the wellbore.

The Geological Report and Maps ("Geologic Data") which may accompany this Memorandum describe certain history of the area in which the Prospect Well is to be attempted as well as other information obtained from various governmental and private authorities. Although all potential Venturers should carefully review the Geological Data and above-described information, potential Venturers are strongly cautioned not to rely in making their investment decision upon such data or information, as by its very nature it is highly speculative and incomplete. Alfaro believes that prior success in drilling in a particular geological formation is a significant factor in assessing the likelihood of success in further drilling; however, there can be no assurance that any drilling project, including the one described herein, will be successful. All projections, estimates and pro forma financial data contained in the Memorandum or any accompanying materials are based upon certain assumptions. All potential Venturers are cautioned that assumptions, by their very nature, involve guesswork and that actual results, if any, can and do vary substantially, both negatively and positively, from those assumed or projected. There can be no assurance that the drilling of the Prospect Well will not result in a Dry Hole and all potential Venturers must understand that they could lose a portion or all of their investment and that Alfaro can not and does not guarantee any Venturer a return of or return on the Venturer's investment herein.

Possible Substitution. As stated above, if the jurisdiction in which the Prospect Well is located declares a moratorium on issuing drilling permits within its geographical limits there is a potential for substitution. If after sixty (60) days from the date the Venture has received all its initial capital contributions the city has not removed its drilling permit moratorium, or for any other reason, then the Managing Venturer may, at its sole discretion, substitute a different well which the Managing Venturer, it its sole discretion believes has similar attributes as the Prospect Well. If a substitute well is selected then the Venturers will be notified and any adjustments in the working capital of the Venture will be made.

Venture's Participation in Costs and Revenues in the Prospect.

The Venture will be acquiring up to 71.25% of the Working Interests (up to 53.4375% Net Revenue Interest) in the Prospect Well. The Venture will be responsible for paying 75.00% of the costs to Drill and Complete the Prospect Well through the casing of the well relating to the Working Interests acquired by the Venture. The following chart shows the Landowner Royalty Interest (RI), assigned working interests and the Working Interests of the Venture ("WI") and Net

Revenue Interests to be acquired or retained, assuming full capitalization and the Venture acquisition of the Prospect.

DRILLING INTEREST ALLOCATIONS[1]
(approximate)

	RI	WI	NRI
Royalty Interests	18.75%	-0-	18.75%
Carried working interests	-0-	3.75%	2.8125%
The Venture	-0-	71.25%	53.4375%

(1) Depicted in the event the Venture does not sell any additional Interests and, thus, does not acquire additional Working Interests.

Other Venture Operations. In the event that the Venture should determine that additional Venture activities are not justified, the Managing Venturer will use its best efforts to dispose of the Prospect on the best terms available for the benefit of the Venture, subject to appropriate Venturers' vote.

Farmout of Prospect by the Venture. Although the Venture does not presently intend to Farmout the Prospect, it has the authority to do so. The Venture may Farmout portions of the Prospect Well if the Venturers determine that the best interest of the Venture would be served. If the Venture determines to Farmout a leasehold interest, the Venture will make every effort to retain such economic interest and concessions that are consistent with industry practice.

Dealings Among Related Parties. The Venture may participate (however, it is not presently anticipated that it will do so) in joint drilling ventures and Farmouts with other partnerships or joint ventures sponsored by the Managing Venturer or its Affiliates. There will be no loans between this Venture and any other entities controlled by the Managing Venturer or its Affiliates.

Title to Venture Properties. Title to the Venture's interest in the Prospect Well will be held in the name of the Venture, except that title to such properties may be held temporarily in the names of nominees (including the Managing Venturer or an Affiliate) in order to facilitate the acquisition of such properties by the Venture and for other valid purposes. The Managing Venturer will use its best efforts to have the appropriate title transferred to the Venture upon completion of the Prospect Well. The Managing Venturer does not guarantee legal title to the Prospect Well.

It will be the policy of the Managing Venturer that title documents relating to the Venture's interest in the Prospect Well will be recorded in the required office of the appropriate governmental agency or authority in the name of the Venture after the well's completion, if any. All files of the Managing Venturer will indicate that such interest is held in the name of the Venture. If the Managing Venturer, Affiliate or other nominee holds Venture properties in its own name, such properties, in the event of such holder's insolvency, might be subject to the claims of creditors of such holder who did not have actual notice of the existence of the Venture and of the interest of the Venture in such properties.

Operating Agreement. The Venture intends to enter into an Operating Agreement pursuant to which an Operator in good standing in the State of Texas will be appointed the Operator, and will be responsible for conducting Operations on the Prospect Well, overseeing production, employing field personnel, keeping production records, and other related matters.

Marketing of Production. Alfaro or the Operator will market the oil and/or gas production, if any, and thus of the Venture. On behalf of the Venture, the Managing Venturer may execute contracts for the sale of oil, gas or other hydrocarbons. See "COMPETITION, MARKETS AND REGULATION."

Distribution of Revenues. Subject to a contrary Vote, net Venture revenues which, in the sole judgment of the Managing Venturer, are not required to meet obligations of the Venture, or held for working capital reserves, shall be distributed as often as practicable to the Venturers.

Insurance. Alfaro expects (although not required to) that it will maintain various types of insurance coverage

in such amounts as it deems appropriate. The Operator may, although it is not required to, carry fire, lightning or explosion insurance for the benefit of the Venture. Also, although it is proposed that the Operator will set surface casing below the level of all known producing fresh water zones, it will secure insurance to protect the Venture in the event that salt water produced from the well contaminates existing fresh water zones or reservoirs. If any of the aforementioned events should occur, and the Venture has not obtained adequate insurance for such event, and the Venture is held liable for any resulting loss, it would reduce the cash available from the Venture for distributions and might severely adversely affect the Venture, including but not limited to total loss of all Venture assets, and the Venturers would be jointly and severally liable for the full extent of such loss without limitation. See "RISK FACTORS -Specific Risks of the Venture: Nature of the Liability of a Joint Venturer."

Services. The Managing Venturer and Affiliates will provide technical services and perform such acts, employ such persons, and execute such agreements as may be necessary or in its judgment, appropriate, in order to contract for the drilling and, if appropriate, Completion of the Prospect Well and provide for production facilities. The Managing Venturer will be responsible to the Venture for the Operation of the Prospect Well. The Managing Venturer will pay and collect all monies the Venture is obligated to pay and collect. The Managing Venturer presently intends that all drilling and, if appropriate, Completion, services for the Venture will be carried on by unaffiliated independent contractors.

Venturers' Authority to Replace Alfaro. Notwithstanding the initial appointment of Alfaro as Managing Venturer, the Joint Venture Agreement provide that the management of the Operations and other business of the Venture shall be the responsibility of the Venturers. The Venturers, by a Vote of 51% in interest, have the absolute authority to replace Alfaro or any other acting Managing Venturer at any time (other than retroactively). All proposed Venturers are required to acknowledge, warrant and represent that they possess the experience to select appropriate replacement Managing Venturers, that the Venturers are not relying on the managerial efforts of Alfaro or an Affiliate for the success of the Venture, and that their experience and knowledge enable them to effectively exercise the managerial power and authority conferred upon them by the Joint Venture Agreement. In addition, such qualifications are required as a prerequisite to becoming a Venturer as described herein.

SOURCE AND APPLICATION OF PROCEEDS

Upon closing of the Capitalization Period, the Venturers' contributions will be up to $7,491,600. The following tables reflect anticipated applications of Venture funds assuming all Interests are subscribed, excluding Additional Assessments.

Use of Proceeds (Maximum Subscription Amount)

	Amount	Percent
Turnkey Contract for Drilling, Testing, and Completion (1)	$ 7,491,600	100%
Lease Cost (3)	Incl.	0.0%
Management Fee (3)	Incl.	0.0%
Geology and Geophysical (3)	Incl.	0.0%
Total	$ 7,491,600	100.0%

(1) Assumes all Interests are subscribed.
(2) See "PROPOSED ACTIVITIES".
(3) These amounts are included in the Turnkey Drilling Price.

PARTICIPATION IN COSTS AND REVENUES WITHIN VENTURE

Interest of Venturers. The interest of a Venturer in the Venture as it relates to Initial Operations will be the proportion which such Venturer's Interest(s) bears to the total Interests of all Venturers in the Venture, plus the 1% contribution to the Joint Venture by the Managing Venturer. The fraction thus attained will represent the fractional interest of each such Venturer in the costs and revenues, if any, of the Venture attributable to the Venturers relating to Initial Operations, which is 99% of the costs and of the revenues of the Venture. The Managing Venturer is obligated to make a capital contribution equal to 1% of the Initial Venture Capital and for Subsequent Operations and such contribution may be made by cash, property or services to the Venture. The Managing Venturer and/or its Affiliates, to the extent they acquire Interests, will share in Venture costs and revenues in the same manner as any other Venturer.

All revenues and customary expenses of Operations and production incurred by the Venture in connection with the production and marketing of any oil and/or gas found by the Venture will be allocated 99% to the Venturers and 1% to the Managing Venturer.

COMPENSATION AND REIMBURSEMENT

In the event the Venture is fully capitalized and commences Initial Operations, the Managing Venturer will receive certain consideration and reimbursement, both directly and indirectly, for serving as Managing Venturer of the Venture.

Monthly Reimbursement to Managing Venturer. Alfaro shall receive, on a monthly basis, an administrative fee of $500.00 per month (plus a fee taken from each interest's net revenue interest in the amount of 0.0125% of net revenue interest), per well, from the Venture for its General and Administrative Expenses allocable to the Venture (including office rent, utilities, geological, engineering, accounting, legal, secretarial, telephone, salaries and other incidental expenses).

One-Time Management Fees from Turnkey Contract. As a fee for the supervision and management of the affairs of the Venture during the drilling period of Initial Operations, Alfaro will receive an amount equal to the excess, if any, of the Turnkey Drilling Price over the actual cost of its obligations pursuant to the Turnkey Drilling Contract. Alfaro cannot accurately predict the actual amount constituting compensation under the Turnkey Contract. Costs to be expended under the Turnkey Contract are a direct result of the drilling and completion risks encountered. During drilling and completion operations, a variety of conditions may be encountered, such as loss of circulation, blow outs, detachment and/or loss of drilling equipment, necessity for the purchase and installation of down hole equipment to keep the wellbore intact, and repair of inadequate cement to hold production casing in place. As such costs are unpredictable with any degree of certainty, in the unlikely event of totally uneventful operations, compensation payable pursuant to the Turnkey Contracts could be substantial. Alfaro cannot reasonably predict the amount of profit, if any, it will receive under the Turnkey Contract. However, Alfaro anticipates that it will receive a profit and to the extent Alfaro receives a profit, that profit could be significant. Likewise, in the unlikely event that a series of major difficulties are encountered, these costs could equal or exceed the amount of Initial Venture Capital, and Alfaro as Managing Venturer would be responsible for such excess costs. Alfaro may use any funds it receives from management fees and/or from turnkey contract revenues for any purpose, including general operating expenses of Alfaro, including, but not limited to, employee salaries and office expenses.

Transfer of Interests. The Joint Venture Agreement provides for a right of first refusal to the Managing Venturer and the Venturers regarding the sale of Interests by a Venturer. If the income received from any such Interest purchased by the Managing Venturer or the price received by the Managing Venturer on subsequent resale exceeds the price paid, such excess may be considered to be additional compensation to the Managing Venturer. For a more detailed description of these rights and obligations, see the Joint Venture Agreement annexed hereto.

Withdrawal Due to Assessments. To the extent that the Managing Venturer advances a Non-Consenting Venturer's Assessment and succeeds to the abandoned interest, or advances a non-paying Venturer's Assessment, such amount may be deemed to be additional compensation to the Managing Venturer.

MANAGEMENT

The management of the Operations and other business of the Venture shall be the responsibility of all of the Venturers. The Venturers, acting by a Vote of 51% in interest, may from time to time designate one or more of the Venturers to act as the managing joint venturer (the "Managing Venturer") of the Venture, for a specified period. The Joint Venture Agreement provides for the appointment of Alfaro as Managing Venturer. All decisions concerning the day-to-day affairs and the Operations of the Venture by the Managing Venturer, during the period so designated, shall be binding upon each of the Venturers and the Venture.

Alfaro, the Managing Venturer, was incorporated under the laws of the State of Texas in March 2008. The services which Alfaro will provide to the Venture in connection with its operations may be supplied by Alfaro or other partnerships, joint ventures or entities with which Alfaro may participate in connection with oil and gas exploration, development and production activities.

The Managing Venturer may rely upon the services and advice of consultants who are available to the Managing Venturer on a per day or per hourly basis. The Managing Venturer may employ such geologists and engineers on a consulting basis in the area in which the Prospect is located in order to have available the benefit of their specific knowledge of the area.

The business and affairs of the Venture will be managed by Alfaro Oil and Gas, LLC, as sole Managing Venturer. Alfaro Oil and Gas, LLC's principal office is located at 21022 Gathering Oak, Suite 2101, San Antonio, Texas 78260 and its phone number is 210-545-9600. The principal officer of Alfaro is:

Brian K. Alfaro, 42, Chief Executive Officer. Brian became an officer of Alfaro in March 2008. Prior to his employment with Alfaro Mr. Alfaro was, an officer of an oil and gas exploration and drilling company, Primera Energy Partners, LLC. From 1999 to 2006, he was a registered representative for The Champion Group an FINRA licensed broker/dealer. From 1995 to 1999 Brian was an agent for Combined Insurance, Inc. Mr. Alfaro has held both a Series 7, 63 and 39 securities licenses. Mr. Alfaro attended Texas Tech University and received his Bachelor's Degree in 1992 and also received his Master's Degree from the University of Incarnate Word in 2000.

Victor R. Hernandez, 41, Executive Vice President – Operations. Mr. Hernandez recently joined Alfaro Oil & Gas, LLC. Prior to his employment with Alfaro Mr. Hernandez was employed by Pinnacle Partners Financial Corporation from November 2009 to March 2011. From June 2009 to October 2009 Mr. Hernandez was employed by Perry Homes, Inc. and from May 2009 to June 2009 he was employed by Physicians Mutual Insurance Co. Mr. Hernandez was employed with Centex Homes Inc. from August 2005 to December 2008 and with Noble & Aicks Properties, Inc. from August 2003 to August 2005. From September 1999 to August 2003 Mr. Hernandez was employed by KB Homes, Inc. Mr. Hernandez holds Series 63 and 22 licenses from FINRA and a Texas Real Estate license.

Santos R. Huerta, 30, Vice President - Joint Venture Relations. Before being employed at Alfaro, Mr. Huerta was employed by Pinnacle Partners Financial Corporation from February 2011 to March 2011 and Hallmark College from October 2010 to February 2011. Mr. Huerta was employed by Michael Savage Homes, Inc. From November 2009 to October 2010, Fieldstone Homes, Inc. from November 2008 to November 2009 and KB Homes, Inc from October 2006 to November 2008. From September 2003 to October 2006 Mr. Huerta was employed by Palm Harbor Homes, Inc. and from January 2003to September 2003 he was employed by Met Life Insurance Company. From September 2001 to January 2003 he was employed by Bright National Lease Corp.

Bruce I. Redfield, 55, Vice President – Business Development. Prior to his employment with Alfaro Oil & Gas, LLC Mr. Redfield was employed by Pinnacle Partners Financial Corporation from October 2009 to March 2011 and American General Life & Accident Insurance Company from February 2009 to October 2009. From June 2008 to January 2009 Mr. Redfield was employed by Worldmark by Wyndham and from June 2005 to June 2008 Texas Land & Reserve Company, LLC. Mr. Redfield was employed by Ad Ideas, LLC from June 2003 to June 2005, Combined Insurance, Inc. from January 2003 to June 2003 and Orleis Online, Inc. from June 2001 to January 2003. Mr. Redfield currently holds Series 63 and 22 licenses from FINRA.

Timothy C. Hundley, 52, Executive Vice President – Client Relations. Prior to his employment with Alfaro, Mr. Hundley was employed by Pinnacle Partners Financial Corporation from April 2008 and by Primera Energy Partners, LLC from February 2007 to April 2008. From October 2006 until February 2007 Mr. Hundley was employed by Lowes, Inc. and from July 2005 to October 2006 he was self employed. Mr. Hundley was employed by Ortho Medical Equipment, Inc. from July 2004 to July 2005 and from July 2001 to July 2002. From July 2002 to July 2004 Mr. Hundley was employed by EcoQuest International, Inc.

Jared L. Jakovich, 41, Executive Vice President – Real Estate. Prior to joining Alfaro Oil & Gas, Mr. Jakovich served as the Managing Principal of Pinnacle Partners Financial Corporation from February 2010 through January 2011. Mr. Jakovich also currently serves as the President of Jakovich Interests, LLC, a real estate investment and development company with commercial holdings in Texas since 2002. During this tenure, he also served as Chief of Staff for a member of The Texas House of Representatives 2008-2009. From 1998-2002, he was employed by Alliance Commercial Investments, Inc. as Executive Vice President of Investment and Development. Mr. Jakovich currently holds series 22, 39, and 63 licenses from FINRA, and is licensed by the Texas Real Estate Commission.

Actions by Regulatory Agencies. On September 17, 2010 and December 28, 2010 Pinnacle Partners Financial Corporation and Brian Alfaro were notified through Wells Notices by the Financial Industry Regulatory Board Agency (FINRA) and the Securities and Exchange Commission (SEC) respectively that they had made a preliminary determination to recommend disciplinary action against them for what FINRA and SEC believes are violations of FINRA, NASD and SEC rules. The aforementioned parties do not agree with the conclusions of the FINRA and SEC staff contained in the Wells Notices and have responded to the Wells Notices stating the basis for their disagreement. On November 23, 2010 FINRA filed a complaint against Pinnacle Partners Financial Corporation and Brian Alfaro, individually, alleging fraudulent sales of unregistered securities and other violations of FINRA, NASD, and SEC rules. The parties deny the allegations and are in the process of defending against the charges. On December 3, 2010 FINRA provided Pinnacle and Brian Alfaro, individually, with Notice of Initiation of Proceeding Seeking a Temporary Cease and Desist for actions alleged in their formal complaint. On January 21, 2011, without any admission of guilt or liability, Pinnacle and Brian Alfaro entered into a consent order with FINRA, providing that Pinnacle and Brian: i) cease and desist from violating Section 10(b) of the Securities Exchange Act of 1934 and FINRA rules 2020, 2150 and 2010, and ii) undertake certain activities regarding prior offerings, cash management and supplying FINRA with certain financial information and reports. On March 3, 2011 Pinnacle filed a Form BDW withdrawing the broker dealer as a member of FINRA. On March 6, 2011, Mr. Alfaro also decided to withdraw from the pending FINRA hearing on his objections to a Notice of Suspension that was issued by FINRA on February 10, 2011.

As a result of these voluntary withdrawals FINRA has entered a suspension against Pinnacle and Mr. Alfaro even though Pinnacle and Mr. Alfaro had already withdrawn their membership in FINRA. The suspension does not find fault or liability, does not resolve the merits of FINRA's prior allegations and Pinnacle and Mr. Alfaro admit no liability with their withdrawal. Indeed, Pinnacle and Mr. Alfaro are contesting the suspension and the matter is pending.

On September 24, 2010 the Texas State Securities Board issued an Emergency Cease and Desist Order naming Alfaro Oil & Gas, LLC, Pinnacle Partners Financial Corporation and Brian Alfaro individually for failing to disclose what the Securities Board believes to be certain material facts in prior issuer private placement memorandums and orders the above parties to cease and desist from engaging in any fraud with the offer for sale of any security in Texas. The parties have entered into a Consent Cease and Desist Order on March 25, 2011. Alfaro and Pinnacle did not admit or deny any of the allegations contained therein.

Principal Owners of Alfaro. As of the date of this Memorandum, the officers of Alfaro own one hundred percent (100%) of the issued and outstanding membership interests of Alfaro.

Financial Statements. As the Venture is a new entity and is in the process of being capitalized by this Offering and has had no material operations as of this date. Consequently there are no financial statements available.

PRIOR ACTIVITIES

This is the first project undertaken by the Joint Venture consequently the Venture does not have an history or prior activities. Alfaro will act as initial Managing Venturer of the Venture; some of its employees and consultants have experience in oil and gas exploration, turnkey drilling contracts or joint venture management activities. The following is a list of well projects and their status in which the Managing Venturer has been the turnkey drilling contractor:

CURRENT AS OF DECEMBER 5, 2011

Program	Date Drilled	Date of First Distribution	Percent of Working Interest per unit	Production Status	Total Revenue from Production	Projected Tax Benefits*	Subscription
South Brushy Creek, Davidson #1	Aug-07	Dec-07	0.96%	Producing IP: 3 MMCF MCF 97 BOPD	$1,695,181.71	$980,864.00	$1,112,490.00
WL Field 4-Well Project	Apr-07	Aug-07	2.29%	Producing Galen Geyer IP: 16.03 BOPD Producing Vreeland #3 IP: 5.43 BOPD Shut In Herman Oil Co #2 IP: 80 BOPD	$337,577.15	$281,911.00	$519,162.00
WL Field II 4-Well Project	Aug-07	Dec-07	2.29%	Producing Littlechild #2 IP: 95 BOPD PA Vreeland #4 IP: 125 BOPD	$286,780.61	$492,864.00	$519,162.00
Brushy Creek V 2-Well Project	Jun-07	Jan-08	2.39%	Shut In pending recompletion Pope #1 IP: 112 MCF Producing Goodrich Delaplain #1 IP: 151 MCF	$225,275.65	$606,303.00	$815,826.00
Brushy Creek VI 3-WellProject	Jun-07	Jan-08	1.62%	Producing Goodrich Poindexter #1 IP: 165 MCF P & A D'Neal Smith IP: 108 MCF Producing Williams #6 IP: 80 MCF	$415,089.28	$595,296.00	$815,826.00
SE Edna Kallus #1	Jan-07	Oct-07	1.66%	Producing IP: 128 MCF 1 BOPD	$201,584.57	$860,010.00	$1,055,753.00
Cook Prospect	Mar-08	Jul-08	5.00%	P & A IP: 270 MCF	$112,809.79	$607,352.40	$664,200.00
Samano West	Aug-08	Mar-09	1.01%	Producing IP: 3.5 MMCFG Equivalent	$309,985.41	$1,165,744.00	$1,583,320.00

CURRENT AS OF DECEMBER 5, 2011

Program	Date Drilled	Date of First Distribution	Percent of Working Interest per unit	Production Status	Total Revenue from Production	Projected Tax Benefits*	Subscription
Brushy Creek VII 3-Well Project	May-08	Nov-08	1.67%	Producing Lundberg #1 IP: 185 MCF Pending Recompletion Williams #7 IP: 150 MCF April 8, 2010 Williams #8 IP: 134 MCF	$128,775.40	$399,378.00	$870,826.00
West Cowpen Creek	Feb-08	Dec-08	1.00%	Shut In IP: 226 BOPD	$66,673.01	$1,180,632.00	$1,814,240.00
Kallus WT Westhoff	Nov-07	Feb-08	3.13%	P & A IP: 40 BOPD	$51,269.92	$696,815.00	$1,266,656.00
Little Lake	Jul-07	Dec-07	2.50%	P & A IP: 535 MCF	$38,451.29	$587,781.00	$949,992.00
South Brushy Creek, Davidson #2	Mar-08	Jan-09	0.96%	Producing IP: 61 BOPD 20 MCF	$69,953.82	$966,696.00	$1,183,200.00
SW Kinder	Nov-07	-	1.22%	P & A	-	$1,083,466.00	$1,266,656.00
Brushy Creek IV 2-Well Project	Jul-07	Jan-08	2.92%	Shut In Pending Recompletion Nichols #1 IP: 110 MCF	$39,423.92	$491,995.00	$667,494.00
SW Bourg	Aug-07	Sep-08	1.33%	P & A IP: 1 MMCFG	$107,173.80	$1,678,358.00	$1,781,235.00
WL Field III 3-Well Project	Dec-07	Jan-09	1.90%	Producing Theo Wiedeman #1 IP: 21.37 BOPD	$9,874.26	$220,923.00	$552,160.00
FE Brown #1	Sep-06	Jan-07	6.81%	P & A	$31,320.74	$770,919.00	$850,000.00
Barnes Deep	Oct-08	Jul-09	0.56%	Producing IP: 3.3 MMCFG	$134,905.87	$1,433,707.00	$2,220,848.00
River Ranch 1190	Oct-06	-	6.25%	P & A	-	$383,806.00	$445,002.00
J McCoy #1	Nov-06	-	6.25%	P & A	-	$736,812.00	$889,992.00
Kiefer-Bissett #1	Dec-06	-	9.69%	P & A	-	$590,954.00	$676,765.00
Selway	Dec-07	-	1.19%	P & A	-	$1,211,348.00	$1,656,480.00
East Ravenswood	Jan-08	-	1.67%	P & A	-	$491,711.00	$1,183,200.00

ALFARO PRIOR ACTIVITIES – CURRENT AS OF DECEMBER 5, 2011

Program	Date Drilled	Date of First Distribution	Percent of Working Interest per unit	Production Status	Total Revenue from Production	Projected Tax Benefits*	Subscription
South Bayou Crook Chene and Birdie Field	Apr-09	TBD	.214%/.714%	P & A / Transferred	TBD	$2,103,055.00	$3,146,080.00
North Muy Grande and Bastian Bay	Apr-09	9/9/2009	.81%/.24%	Producing IP: 4.2 MMCF	$14,425.96	$813,729.00	$2,631,528.00
East Moss Lake & LNG	Aug-09	TBD	0.43% per well	Producing IP: 37 BOPD 1061 MCF/ IP: 80 BOPD 2184 MCF	$619,763.61	$1,088,544.00	$1,814,240.00
North Cankton	Jun-09	Aug-09	2.42%	Producing IP: 250 BOPD	$730,719.28	$630,370.00	$969,800.00
McDonald Canyon Reef	Nov-09	TBD	5.47%	Completed Now P & A	TBD	$567,936.00	$1,262,080.00
East Wharton	Dec-09	TBD	0.667%	Completed Now P & A	TBD	$532,440.00	$1,183,200.00
Normanna North 3-D	Jan-10	Jan-10	0.92%	Producing	$14,712.72	$1,036,066.50	$2,302,370.00
The Normanna 3-D/PSTM Development Well	NA	NA	0.41%	Transferred	NA	$1,627,149.60	$2,291,760.00
Ramerto Creek 3-D	Oct-09	TBD	0.65%	Shut in Pending P & A	TBD	$763,920.00	$1,697,600.00
East Lake Palourde	Feb-10	TBD	0.63%	P & A	TBD	$611,136.00	$1,358,080.00
SW Redfish Reef	Feb-10	TBD	0.400%	Pending Drilling	TBD	$1,033,740.00	$2,297,200.00
North Hillje	Jul-08	May-09	1.25%	P & A IP 105 BO	$72,687.67	$758,525.00	$1,419,840.00
Campana North	Apr-10	TBD	3.00%	P & A	TBD	$473,280.00	$1,183,200.00
Kenedy Townsite	NA	NA	0.88%	Transferred	NA	$1,091,294.00	$1,340,960.00
Lake Boudreaux	Oct-08	-	0.49%	P & A	-	$2,037,802.00	$3,086,580.00
East Bayou Fordoche	Dec-08	-	0.90%	P & A	-	$801,943.00	$1,341,096.00
South Brushy Creek, Davidson 1A	Oct-08	TBD	0.90%	P & A	-	$758,276.00	$1,262,208.00
Pangaea	Apr-10	-	1.67%	P & A	-	$503,955.00	$1,419,840.00
Denali	TBD	-	.72%	P & A	NA	$651,521.00	$1,814,240.00
Frenchtown 2-H		April-11	1.01%	Producing	$142,494.95	$724,260	$1,037,088
Montague 1-H		TBD	1.4%	Drilled	TBD	$1,730,300	$1,194,710
Montague 2-H		TBD	1.4%	Drilled	TBD	$1,887,600	$1,303,320

* Projected tax benefits can vary based upon your individual tax bracket. Please see your financial advisor for your tax benefits

Under normal circumstances, substantially all earnings are distributed to partners. On occasion however, distributions may be withheld to pay actual workover or production enhancement costs. It should not be assumed that any Venturers in this Venture will have either success or failure comparable to those experienced by Venturers in any prior oil and gas program. Each oil and gas well has unique characteristics and Alfaro believes that a Venturer cannot predict future performance of any given well based upon the performance of a prior well, even if the prior well was drilled in the same area. Alfaro further believes the rates of return and/or production, or lack thereof, related to prior programs are not material as indicative of the future performance of this Joint Venture. It should also be noted that all wells decline over time, some more frequently and drastically than others. Moreover, actual production, if obtained, should not be compared with Initial Production values. For these and other reasons, including the unpredictability of oil and gas pricing and development and differences in program structure, property location, program size and economic conditions, operating results obtained by any prior program should not be considered as indicative of the operating results obtainable by this Joint Venture.

INDEMNIFICATION

The Venture has agreed to defend and hold the Managing Venturer harmless and to indemnify it, under certain circumstances, with respect to suits or proceedings (including appeals) to which the Managing Venturer may be a party or witness or threatened to be made a party or witness, and any inquiry or investigation that could lead to such an action, suit or proceeding, by reason of the fact that it is, or was, the Managing Venturer of the Venture. Under such indemnification provisions, the Venture has agreed to pay the Managing Venturer's expenses, including attorneys' fees and judgments or amounts paid in settlement. See Article X of the Joint Venture Agreement attached hereto.

The Joint Venture Agreement also provides that each Venturer shall indemnify, defend and hold harmless the Venture and all other Venturers (including Alfaro as the Managing Venturer), up to the amount of his or her capital contributions, in certain circumstances from and against any loss, claim, cause of action, item of damages, expense and cost (including attorneys' fees and court costs) arising directly or indirectly out of any act of such Venturer that is inconsistent with the delegated rights and authority of the Managing Venturer of the Venture.

CHANGE OF MANAGING VENTURER

The Joint Venture Agreement provides a method by which fifty-one percent (51%) in interest of all the Venturers may remove the Managing Venturer and substitute a new Managing Venturer to operate and carry on the day-to-day business of the Venture.

CONFLICTS OF INTEREST

The Managing Venturer will have the authority to purchase properties for the Venture for exploration and development purposes, including the authority to purchase properties for the Venture from Alfaro or its Affiliates in their individual capacities. The Managing Venturer will be permitted to purchase oil and gas properties for its own account regardless of what business, if any, is conducted by the Venture. Since the control of the Venture expenditures is at the discretion of the Managing Venturer at all times during the term of its office as Managing Venturer, conflicts of interest may arise.

The Venture is expected to enter into a Turnkey contract with Alfaro, in its individual capacity, concerning the drilling and if appropriate completion in one potentially productive zone of the Prospect Well (and certain other services) for the Turnkey contract price. Pursuant to such contract, Alfaro will be entitled to any amounts representing the differences, if any, between the Turnkey drilling and completion price and the actual costs to Alfaro of the services it is obligated to perform pursuant to the terms of the Turnkey Drilling Contract. Neither the Turnkey Contract nor the Turnkey Price have been the subject of arm's-length negotiations, although the Managing Venturer believes the turnkey drilling and completion prices allocable to drilling and completing the Prospect Well are at or competitive with rates charged by third parties for similar wells in the locality. Alfaro, and not the Venture, will be responsible for all costs in excess of the Turnkey Price (if any) relating to the drilling of the Well. The payments made by the Venture towards the Venture's Turnkey Contract obligation to Alfaro will be taken in by Alfaro as general revenues or working capital and may be spent by Alfaro for any and all expenses of Alfaro. Alfaro may use current and future revenues from other

Turnkey Contracts from other joint ventures to perform its obligations under the terms of the Turnkey Contract to the Venture.

If, after the Venture acquires the interests in the Prospect Well, the Venture later determines that the Prospect Well is unsuitable for oil and gas exploration because of, among other things, lack of funds or high risks involved, or if the Prospect site has been downgraded by events occurring after the assignment to the Venture to the point that exploration would no longer be desirable, or if the Venture's determines that the best interest would otherwise be served, they may Farmout the Prospect or sell or otherwise dispose of the Venture's interest therein. The decision with respect to making a Farmout and the terms of a Farmout may involve conflicts of interest, as the Managing Venturer may benefit from cost savings and reduction of risk.

Most of the areas of conflict of interest, which are described above, are common to many oil and gas drilling programs. The terms of the Joint Venture Agreement are intended to ameliorate the conflicts of interest inherent in such a situation to the extent practicable, taking into consideration the uncertainties involved in attempting to determine in advance the location of the well to be drilled by the Venture, the progress of drilling and other exploratory activity in the area of the Prospect Well and the outcome of exploration operations.

In connection with establishing the terms of loans or advances to the Venture, commercial banks may consider cash balances of the Venture that are not required for the conduct of Venture business operations. To the extent the terms of such loans may be affected by the Venture's deposits, the Managing Venturer may have an incentive to maintain a larger portion of the Venture assets in the form of cash balances than would otherwise be necessary.

The Venture and Alfaro are represented by the same legal counsel and such dual representation may be a conflict of interest and such conflict of interest has been waived by the Venture and Alfaro.

TAX ASPECTS

THE FULL IMPLICATIONS OF THE U.S. FEDERAL, STATE AND LOCAL LAWS THAT MAY AFFECT THE TAX CONSEQUENCES OF PARTICIPATING IN THE VENTURE ARE TOO COMPLEX AND NUMEROUS TO DESCRIBE IN THIS MEMORANDUM. THEREFORE, EACH PROSPECTIVE VENTURER IS STRONGLY URGED TO SATISFY HIMSELF OR HERSELF AS TO THE U.S. FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES OF PARTICIPATING IN THE VENTURE BY OBTAINING ADVICE FROM HIS OR HER OWN TAX COUNSEL, PARTICULARLY WITH RESPECT TO ANY TAX PROPOSALS THAT MAY AT SOME FUTURE DATE BE ENACTED INTO LAW.

THE DISCUSSION BELOW IS A GENERAL DESCRIPTION OF SOME OF THE MATERIAL U.S. FEDERAL INCOME TAX ASPECTS OF PARTICIPATION IN THE VENTURE DESCRIBED HEREIN AND IS NOT INTENDED IN ANY WAY TO BE CONSTRUED OR INTERPRETED AS TAX ADVICE. THE DISCUSSION IS DIRECTED PRIMARILY TOWARD INDIVIDUAL TAXPAYERS THAT ARE CITIZENS OR RESIDENTS OF THE UNITED STATES. PERSONS WHO ARE NOT UNITED STATES CITIZENS OR RESIDENTS, TAX-EXEMPT ENTITIES, CORPORATE ENTITIES IN GENERAL AND CORPORATE ENTITIES THAT ARE SUBJECT TO SPECIALIZED RULES, (e.g., S CORPORATIONS OR INSURANCE COMPANIES), AND TRUSTS ARE URGED TO CONSULT THEIR TAX ADVISORS BEFORE PARTICIPATING IN THE VENTURE.

Some of the federal income tax aspects applicable to this Venture are unsettled and not free from doubt. Moreover, in determining the deductibility of certain expenditures made by the Venture, there are many factual and legal questions involved, including but not limited to the proper characterization of income and expense, the reasonableness of amounts involved, the purpose of the expenditures and the period or periods to which the expenditures are properly attributable. Venturers should not read this summary as a prediction of a favorable outcome of the tax issues concerning which no favorable prediction is made.

The material tax benefits of participating in the Venture will be the deductions attributable to Intangible Costs, accelerated cost recovery on equipment and other tangible property, accelerated recovery of geological and geophysical costs if those costs are incurred and, if production is achieved, depletion. Assuming Venture Operations are conducted

as proposed herein, the Managing Venturer believes that, in the aggregate, the material tax benefits contemplated in this Memorandum more likely than not will be realized by a Venturer as set forth below. Venturers, however, must not construe this statement as an indication that all tax benefits described in this summary will be realized. In addition, this conclusion concerning the realization of the material tax benefits is based on certain assumptions concerning the operation of the Venture, and certain expectations of the Managing Venturer, and is subject to the discussion below. Final disallowance of any deduction would adversely affect the Venturers. There can be no assurances that some of the deductions taken by the Venture will not be challenged and disallowed in whole or in part or permitted as deductions only in a subsequent taxable year of the Venture.

Prospective Venturers should be aware that the Venture may report tax losses from Operations. To the extent allowed, the deductions afforded in one year of the Venture could operate to defer to the year of sale or disposition, and not eliminate, a Venturer's overall federal income tax liability. Any gain from the sale or disposition of a Venture interest will be taxed at ordinary rates to the extent attributable to unrealized receivables (which term includes recapture of depreciation, depletion and Intangible Costs). Therefore, the tax benefit any particular prospective Venturer may derive from participating in the Venture will depend, in part, on the value of such a tax deferral to the Venturer.

This Memorandum is not intended or written to be used, and cannot be used, by any Venturer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code. This Memorandum is written to support the promotion or marketing of the Venture. Each Venturer should seek advice based on the Venturer's particular circumstances from an independent tax advisor.

Tax Status of the Joint Venture. The Venture has not requested, and does not intend to request, a ruling from the Service that it will be treated as a partnership for U.S. federal income tax purposes. As set forth below, however, the Managing Venturer believes that for U.S. federal income tax purposes the Venture should be determined to be a partnership and not an association taxable as a corporation. Such treatment for federal income tax purposes depends on the Venture's organization as well as its actual operation.

Under the "check the box" regulations, Treasury Regulation § 301.7701-1 et seq., the Venture should be treated as a partnership for federal income tax purposes because (i) the Venture will be engaged in a trade or business and will divide the profits there from, thus it should be treated as a separate entity; (ii) pursuant to Treasury Regulation § 301.7701-2(a), the Venture should be treated as a business entity because it is not properly classified as a trust under Treasury Regulation § 301.7701-4; (iii) the Venture should not be considered to be a corporation as defined in Treasury Regulation § 301.7701-2(b); and (iv) the Venture does not intend to elect to be classified as an association pursuant to Treasury Regulation § 301.7701-3(a). Therefore, the Venture should be treated as a partnership under the "default rule" of Treasury Regulation § 301.7701-3(b)(1).

If, however, an election was made to treat the Venture as a corporation or the Service treated the Venture as such for any taxable year, the taxable income of the Venture for such year would be subject to federal income tax at the Venture level at corporate tax rates, the Venturers would be treated as shareholders, and distributions by the Venture, if and when made, would be taxable to the Venturers as dividends or otherwise treated as corporate distributions. In such event, there would be no flow through of items of Venture income, deduction, gain or loss to the Venturers, with the result that most of the tax benefits mentioned below would not be available to the Venturers.

If the Venture were treated as a partnership under the check-the-box regulations, there is nonetheless a risk that it could be treated as a so-called "publicly traded partnership" for U.S. federal income tax purposes that is treated as an association that is taxable as a corporation. A publicly traded partnership for U.S. federal income tax purposes is generally any partnerships whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. Interests in the Venture will not be traded on an established securities market, so the Venture should not be treated as a publicly traded partnership as a result of being traded on an established security market.

Treasury Regulations concerning the classification of partnerships as publicly traded partnerships provide that interests in a partnership are readily tradable on a secondary market or the substantial equivalent thereof if: (i) interests in the partnership are regularly quoted by any person, such as a broker or dealer, making a market in the interests; (ii) any person regularly makes available to the public (including customers or subscribers) bid or offer quotes with respect

to interests in the partnership and stands ready to effect buy or sell transactions at the quoted prices for itself or on behalf of others; (iii) the holder of an interest in the partnership has a readily available, regular, and ongoing opportunity to sell or exchange the interest through a public means of obtaining or providing information of offers to buy, sell, or exchange interests in the partnership; or (iv) prospective buyers and sellers otherwise have the opportunity to buy, sell, or exchange interests in the partnership in a time frame and with the regularity and continuity that is comparable to that described in (i)-(iii).

The regulations set forth certain transfers that will be disregarded in determining whether there is trading on a secondary market such as transfers at death, transfers between family members, distributions from a qualified retirement plan and block transfers, which are defined as transfers by a partner during any 30 calendar day period of partnership interests representing more than 2% of the total interest in a partnership's capital or profits.

The regulations also provide certain safe harbors that permit certain transfers (other than disregarded transfers) of partnership or venture interests without creating a deemed secondary market or the substantial equivalent thereof. For example, one safe harbor provides that interests in a partnership or venture will not be considered tradable on a secondary market or the substantial equivalent thereof if the sum of the partnership or venture interests transferred during any taxable year of the partnership or venture, excluding certain disregarded transfers, does not exceed 2% of the total interest in the capital or profits of the partnership or venture. Another safe harbor provides that interests in a partnership or venture will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if the partnership or venture has less than 100 partners or ventures at all times during the taxable year and the interests in the partnership or venture were issued in a transaction (or transactions) that was not required to be registered under the Securities Act of 1933. Yet another safe harbor deals with redemption and repurchase agreements. Failure to satisfy a safe harbor provision under the regulations, however, will not necessarily cause a partnership or venture to be treated as a publicly traded partnership if, taking into account all of the facts and circumstances, the investors are not readily able to buy, sell or exchange their interests in a manner that is comparable, economically, to trading on an established securities market.

No assurance or guarantee can be given that the Venture will satisfy one of the secondary market safe harbors or that the IRS will not successfully assert that the Venture should be classified as a publicly traded partnership. Subject to the "qualifying income" exception discussed below, if the Venture is classification as a publicly traded partnership, this would result in the Venture being taxable as a corporation.

If a partnership or venture were treated as a publicly traded partnership for U.S. federal income tax purposes, it would nonetheless remain taxable as a partnership if 90% or more of its gross income for each taxable year in which it was a publicly traded partnership consisted of "qualifying income." For this purpose, qualifying income generally includes, among other things, income and gains derived from the exploration, development, mining, production or marketing of oil and natural gas. If the Venture were classified as a publicly traded partnership but qualified for the qualifying income exception to corporate taxation, the passive activity loss limitations discussed below would be applied separately to each Venturer's allocable share of income and loss attributable to the Venture.

The Treasury Regulations set forth broad "anti-abuse" rules authorizing the IRS to recast transactions either to reflect the underlying economic arrangement or to prevent the circumvention of the intended purpose of any provision of the Code. The Managing Venturer is not aware of any fact or circumstance that could cause these rules to be applied to the Venture; however, if any of the transactions described in this Memorandum were to be recharacterized under these rules, this may have material adverse tax consequences to you.

The following discussion assumes that the Venture will be treated as a partnership for federal income tax purposes.

Tax Consequences to the Venturers. While the Venture must file a U.S. federal income tax return, the Venture is not required to pay any federal income tax. Instead, each Venturer must report on his or her individual federal income tax return and pay tax on his or her allocable share (as determined by the Joint Venture Agreement) of income, gains, losses, deductions and credits of the Venture, irrespective of whether any cash distributions are made to the Venturers.

Intangible Costs. The Venture will allocate 99% of its Intangible Costs, if any, to the Venturers and 1% to the Managing Venturer. Assuming a proper election by the Venture and subject to the limitations on deductions, each

Venturer should be entitled to currently deduct his or her share of the Intangible Costs that have been properly allocated to the Venturers under the Joint Venture Agreement assuming such costs are properly classified as Intangible Costs and are not non-deductible capital costs or some other costs that are not currently deductible. The Joint Venture Agreement obligates the Managing Venturer to cause the Venture to elect to currently deduct Intangible Costs. However, even if proper elections is made by the Venture to currently deduct Intangible Costs, each Venturer may elect to capitalize all or a portion of his or her share of Intangible Costs and amortize them on a straight-line basis over a 60-month period beginning with the month the expenditure is made.

Integrated oil companies can expense only 70% of the Intangible Costs that otherwise qualify for current deduction, and the other 30% must be deducted in 60 equal monthly installments. In order to qualify as an "independent producer" that is not subject to the Intangible Costs deduction limits that apply to integrated oil companies, a Venturer, either directly or through certain related parties, may not be involved in the refining of more than 75,000 barrels of oil (or an equivalent amount of gas) on any day during the taxable year or in the retail marketing of oil and gas products exceeding $5 million per year in the aggregate.

Depletion. Code section 611 allows as a deduction against income received from the oil or gas produced each year a reasonable allowance for depletion. The depletion deduction is the greater of percentage depletion at the applicable rate, if available, or cost depletion. Cost depletion allows the recovery of capitalized costs (such as lease bonus and other lease acquisition costs, legal fees and certain other capitalized, non-depreciable costs) of a producing property over its life by an annual deduction computed on the basis of the actual oil and gas sold each year in relation to estimated recoverable oil and gas. Percentage depletion, if applicable, is an annual statutory allowance equal to a percentage of the gross income from the depletable property (but in no event exceeding 100% of the taxable income from the property before allowance for depletion) computed without regard to the costs associated with the property. Deductions resulting from percentage depletion can therefore exceed total costs associated with acquisition of the property. However, on sale of the property, the portion of the gain that represents depletion that reduced the basis of the property will be recaptured as ordinary income. The availability of percentage depletion, under the provisions of Code section 613A, is now largely dependent on the personal tax situation of each individual participant. ACCORDINGLY, EACH PROSPECTIVE PARTICIPANT IS URGED TO CONSULT HIS OR HER PERSONAL TAX ADVISOR CONCERNING THE AVAILABILITY TO HIM OR HER OF PERCENTAGE DEPLETION.

Except for certain natural gas production, percentage depletion is generally available only with respect to a limited amount of domestic crude oil or domestic natural gas production of each taxpayer, under the so-called "independent producer exemption." The first 1,000 barrels per day of a taxpayer's domestic oil production or the first 6,000,000 cubic feet per day of a taxpayer's domestic gas production may qualify for the percentage depletion allowance under the "independent producer exemption." The applicable rate of percentage depletion on oil and gas production under the "independent producer exemption" is in most cases 75%. The depletion deduction under the "independent producer exemption" may not exceed 65% of the taxpayer's taxable income for the year, without regard to certain deductions and subject to a carry-over of the unused portion of the deduction.

The "independent producer exemption" is not available to a taxpayer (a) who refines more than 75,000 barrels of oil on any one day in a taxable year; or (b) who directly or through certain related persons sells oil or gas or any product derived there from (i) through a retail outlet operated by him or her or certain related persons, or (ii) to any person who occupies a retail outlet that is owned and controlled by the taxpayer or certain related persons, provided that the gross receipts from such sales exceed $5,000,000.

The Venture will not compute the depletion allowance. Instead, each Venturer must separately compute his or her own depletion allowance with respect to his or her allocable share of Venture property and reduce the adjusted basis of his or her Venture interest (but not below zero) by the amount of such depletion deduction to the extent such deduction does not exceed the basis allocated to that Venturer of the Venture oil and gas property with respect to which the deduction is claimed. Each potential Venturer is urged to consult his or her tax counsel with respect to the availability to him or her of the percentage depletion allowance.

Depreciation. The cost of casing, tubing, tanks, pumping Interests and other types of tangible property and equipment cannot be deducted currently, but must be capitalized and depreciated or amortized pursuant to applicable provisions of the Code. Under the modified accelerated cost recovery system it is likely the cost of most of the tangible

personal property to be acquired by the Venture will be depreciated over either a five year recovery period (available for property with a class life of more than four years but less than ten years) or a seven year recovery period (available for property that has a class life of ten or more years but less than sixteen years). This property would be depreciated on the 200% declining balance method switching to the straight line method for the first taxable year the straight line method would yield a larger allowance. It is likely that the Venture's first taxable year will be less than 12 months. In the case of a taxable year of less than 12 months, property is to be treated as being placed in service for half the number of months in such taxable year. See Conference Report to Accompany HR 3838, Rep. No. 99-841, 99th Cong., 2d Sess. at II-46 (September 16, 1986) (Statement of the Managers). Consequently, first year depreciation will be computed as if the property was placed in service at the midpoint of the taxable year. Finally, any depreciation allowable on such tangible property and equipment may also be subject to recapture as ordinary income on transfer of the property or a Venture interest.

As part of the American Recovery and Reinvestment Act of 2009, Congress created special depreciation rules for so-called "qualified property." Under these special rules, taxpayers are generally allowed a one-time "bonus" depreciation deduction equal to 50% of the cost of the qualified property. The remaining cost of the qualified property must be capitalized and depreciated in accordance with the rules discussed above. Generally speaking, qualified property is property that is acquired and placed into service before January 1, 2010, and that meets certain other requirements. Certain of the Venture's Tangible Costs may be for property that constitutes "qualified property" that is eligible for the 50% bonus depreciation deduction in the Venture's initial year of operation. However, there can be no assurance or guarantee that any of the Venture property will be eligible for the 50% bonus depreciation deduction.

Leasehold Cost and Abandonment; Geological and Geophysical Costs. Except as discussed below, the cost of acquiring oil and gas lease interests, or other similar oil and gas property interests, is a capital expenditure that may not be deducted in the year paid or incurred. However, if a lease is proved to be worthless by drilling or abandonment, the cost of that lease constitutes a loss and may be deductible for U.S. federal income tax purposes. The federal income tax deduction for the loss, however, must be taken by the Venturers, individually, rather than by the Venture and allocated to the Venturers. The deduction for such loss is taken in the year in which the lease becomes worthless or is abandoned.

Notwithstanding the foregoing, amounts paid for geological and geophysical costs in connection with the exploration for or development of oil or gas generally may be deducted ratably over a 24-month period. In the case of Venturers that qualify as major integrated oil companies (as defined by Code section 167(h)(5)), the amortization period is extended to 7 years. For purposes of this special amortization rule, geological and geophysical costs paid during a year are treated as being paid or incurred on the mid-point of that year. If a lease to which any geological and geophysical costs relate is worthless or abandoned, the remaining unamortized costs must continue to be amortized over the original 24-month (or 7-year) period.

Venture Organizational Expenses. Organization, start-up, marketing, syndication and sales commission expenses may not be deductible or may be deductible only in small increments over time. For example, if expenses related to organizing and starting the Venture exceed a certain amount, all or a portion of the expenses will not be currently deductible but instead must be deducted over a period of one hundred and eighty months. Marketing and selling expenses are generally classified as syndication expenses and are not deductible. Such syndication expenses must be added proportionately to your basis. In addition, all expenses will be deductible only to the extent that they constitute an ordinary and necessary business expense and are reasonable in amount. If the Service were to successfully challenge any deductible expense, your taxable income could be increased, thereby resulting in increased taxes and a potential liability for interest and penalties.

All Organizational costs incurred in connection with the organization and capitalization of the Venture will be paid by the Managing Venturer out of its management fee. The Managing Venturer intends to allocate a portion of its management fee attributable to organizational costs to non-amortizable syndication expenses and a portion to amortizable organization expenses. There can be no assurance that the Service will not take the position that some of the expenses treated by the Venture as amortizable organization expenses or deductible Intangible Costs are non-amortizable syndication expenses and that any such claim by the Service would not be sustained by the courts if litigated. Further, no assurance can be given that amounts allocated by the Venture to amortizable organization expense should instead be capitalized as part of the cost of the Prospect. If the Service were successful in this contention, the Venturers would not be able to amortize amounts otherwise allocable to amortizable organization expenses.

Management Fees. Management fees paid by the Venture will be deductible only to the extent such fees are ordinary and necessary business expenses and are reasonable in amount. The Managing Venturer will initially determine whether all or only part of the amounts paid for the management fee for Operations or management fee for assessments, if any, paid by the Venture are properly deductible under the Code in the year paid. The issue as to the allocation of such management fees between deductible ordinary and necessary business expenses, organization and offering costs, and other costs required to be capitalized, if any, and the reasonableness thereof, are inherently factual and, to a certain extent, predicated upon future events. For that reason, the Managing Venturer cannot predict the outcome of a challenge with regard to these matters. There can be no assurance that the Service will not attempt to disallow, in whole or in part, a deduction for management fees that the Managing Venturer determines are deductible and that, if litigated, any such position by the Service would not be sustained by the courts, at least as to a portion of such fees. There is a risk that any portion of the management fees treated as a deductible payment could be reclassified in whole or in part as a syndication fee, an organization expense, a lease acquisition cost, a payment for services to be performed over the life of the Venture or for some other cost that is not currently deductible. If any such position of the Service were sustained, the deductions attributable to the payment of the management fees would be disallowed, reduced or delayed, and the tax liability of the Venturers could be increased.

Administrative Expenses. Under the terms of this Memorandum and the Joint Venture Agreement, the Managing Venturer will be reimbursed for administrative expenses incurred in the course of conducting the business of the Venture. Under the Code, the reimbursements will be deductible only if they constitute ordinary and necessary business expenses. The Managing Venturer will cause the Venture to deduct the reimbursement for administrative expenses as an ordinary and necessary business expense. Because of the factual questions involved in determining what constitutes ordinary and necessary business expenses, there can be no assurance that the Service will not challenge the deduction. If the Service successfully challenges a deduction, the Venturers could owe additional taxes, penalties and interest.

Farmout and Other Sales or Transfer of Properties. The Venture will be primarily engaged in the exploration and development of the Prospect Well and may subsequently sell or otherwise dispose of the Prospect Well. These subsequent transactions could take the form of a sale, a lease or sublease or a sharing arrangement. The tax treatment of such transactions will depend upon the form and substance of the transaction and the nature of any interest in the Prospect Well retained by the Venture.

If the Venture transfers the entire working interest in Prospect Well to a third party for cash and/or a note and retains no interest in the Prospect Well, or if the Venture transfers a portion of the working interest and only retains the remainder of the working interest or a production payment with respect to the transferred Prospect Well, the transaction should be characterized as a sale or exchange for federal income tax purposes. In general, if property used in a trade or business, including a working interest in oil or gas property, is sold and if the seller is not a dealer in such property, gain on such property held more than one year will likely be treated as a "section 1231 gain", subject, however, to recapture of accelerated depreciation, depletion and Intangible Costs (which recapture is taxed as ordinary income). Section 1231 gain passes through to the Venturers and each Venturer must combine his share of Venture section 1231 gain with his personal section 1231 gains and losses. Except as otherwise provided in the rules relating to non-recaptured net section 1231 losses, the excess of section 1231 gains over section 1231 losses, constitutes long-term capital gain. However, net section 1231 gain will be ordinary income to the extent it does not exceed the "non-recaptured net section 1231 losses". Non-recaptured net section 1231 losses will include all net section 1231 losses claimed for the five (5) most recent preceding taxable years to the extent they have not previously been recaptured (i.e., converted into ordinary income).

Section 1231 gains and losses characterized as capital gains and losses are combined with all the taxpayer's other capital gains and losses. With some exceptions, a non-corporate taxpayer's net long term capital gain is generally subject to tax at a rate of fifteen percent (15%). A non-corporate taxpayer may deduct losses from sales or exchanges of capital assets to the extent of his gains from such sales or exchanges plus the lesser of (i) $3,000 or (ii) the excess of such losses over such gains. See also "Tax Preference Income" below.

If the Venture is deemed a "dealer" with respect to its Prospect, then all gains on the sale of a Prospect will be taxed at ordinary income rates rather than capital gain rates.

If, on the other hand, the Venture transfers a working interest in the Prospect and retains a non-operating interest such as a royalty, an overriding royalty or a net profits interest, the transaction will more likely than not be characterized

as a lease or a sublease and the revenues received from the retained interest would be taxed at ordinary income rates and not capital gain rates.

Finally, if the Venture enters into certain Farmout agreements or other "sharing arrangements", the transaction may not be characterized as a sale, but rather as a lease or sublease or an investment in a separate joint venture depending upon the nature of the interest retained by the Venture as "Farmor". In a typical transaction the Farmor might assign all (or a portion) of its working interest in a drill site to the assignee ("Farmee") in exchange for the Farmee's agreement to bear all costs of the obligation well on the drill site. Such agreement generally also provides that (1) the Farmee earns an interest in the Farmor's additional acreage surrounding the drill site, (2) the Farmee is entitled to payout on the obligation well, and (3) after payout, a portion of the drill site working interest reverts to the Farmor.

For federal income tax purposes, the Farmee is generally entitled to deduct one hundred percent (100%) of the Intangible Costs incurred in drilling the obligation well and treat one hundred percent (100%) of the capital expenses as expenditures subject to depreciation as long as the Farmee has a first priority right to recoup its drilling expenditures from production from the well. In at least one instance, however, the IRS has taken the position that although the Farmee is entitled to deduct the Intangible Costs actually paid or incurred in drilling and completing the obligation well, the transferred portion of the Working Interest in the Farmor's additional acreage surrounding the drill site constitutes compensation in the form of property to the Farmee for undertaking the development project on the drill site. See Rev. Rul. 77-176, 1977-1 C.B. 77. Consequently, the fair market value of such working interest, determined as of the date of its transfer to the Farmee, is includable in the Farmee's gross income in the year the well is completed or when the working interest in the additional acreage is transferred to the Farmee, whichever is earlier. With respect to the fraction of the working interest in the acreage exclusive of the drill site transferred by the Farmor to the Farmee, the Farmor is to be treated as having sold such interest for its fair market value on the date of transfer and having paid the cash proceeds to the Farmee as additional compensation to the Farmee for undertaking the development project on the drill site. This treatment may result in taxable income to the Farmor.

If the Venture enters into a Farmout, the Managing Venturer may attempt to minimize the effect of Rev. Rul. 77-176 in negotiating the transaction on behalf of the Venture. However, to the extent any such transaction produces taxable income under the ruling, the Venturers' tax liability attributable to such transaction may exceed cash distributed from the Venture. In addition, the fair market value of such property is a factual question and may be adjusted by the Service to produce additional tax liabilities for the Venturers.

Domestic Production Activities. Generally speaking, taxpayers may deduct an amount equal to 6% (increasing to 9% beginning in 2010) of their net income from domestic production activities. The deduction is limited to the lesser of: (i) the taxpayer's taxable income for the year, (ii) the taxpayer's qualified production activities income, or (iii) 50% of the taxpayer's employees' reportable wages for the year that are properly allocable to domestic production gross receipts. Domestic production activities income includes income from (i) the sale of natural gas produced by the taxpayer in the Interested States and (ii) the sale or lease of tangible personal property produced or extracted by the taxpayer in whole or significant part in the U.S.

For taxpayers with oil or gas production, transportation, or refining activities, the allowable deduction will be reduced by 3% of the lesser of: (i) qualified production activities income, (ii) oil related qualified production activities income, or (iii) taxable income. Qualified production activities income is generally the taxpayer's domestic production gross receipts over the sum of (i) the cost of goods sold that are allocable to such receipts, and (ii) other expenses, losses or deductions allocable to such receipts. Oil related qualified production activities income means for any taxable year the qualified production activities income that is attributable to the production, refining, processing, transportation, or distribution of oil, gas, or any primary product thereof during such taxable year.

The availability of the domestic production deduction is dependant upon many factors, which will vary among Venturers. Therefore, each potential Venturer is urged to consult with its own tax advisor regarding its ability to claim a deduction for domestic production activities in connection with its participation in the Venture.

Tax Basis in Venture Interest. The tax basis of a Venturer in its Venture interest is important for several reasons including, but not limited to, determining: (1) the current deductibility of a Venturer's distributive share of Venture losses; (2) income tax consequences of distributions; and (3) gain or loss on the sale of a Venture interest. A Venturer's adjusted

basis in its interest in the Venture will generally be its capital contribution to the Venture increased by: (a) its allocable share of Venture income and gain: and (b) its share of liabilities of the Venture for federal income tax purposes; and decreased (but not below zero) by: (i) distributions from the Venture to the Venturer; (ii) its allocable share of Venture losses; (iii) its share of any reduction in the Venture's liabilities to the extent such liability was included in its basis; (iv) its share of nondeductible expenses of the Venture that are not properly chargeable to a capital account; and (v) the amount of the Venturer's deduction for depletion attributable to Venture oil or gas property to the extent such deduction does not exceed the basis of such property allocated to that Venturer.

Each individual Venturer, rather than the Venture, will compute the tax basis in its Venture interest. This may place an administrative burden on the Venturers.

Treatment of Cash Distributions from the Venture. A Venturer generally will not recognize gain or loss for federal income tax purposes when he or she receives a cash distribution from the Venture in respect of, and not in liquidation of, his or her Venture interest so long as the Venturer's basis exceeds the amount of the distribution and the distribution is not in exchange for his or her interest in "unrealized receivables" (which include potential recapture of depletion, Intangible Costs and depreciation deductions) or "inventory items." A Venturer will recognize gain on cash distributions (including any reduction in Venture indebtedness for which no Venturer is personally liable) that exceed the adjusted basis in his or her Venture interest immediately prior to such distribution. See also "At Risk Recapture of Losses" below.

Tax on Self-Employment Income. Individuals are generally required to pay a tax on their income from self-employment, that is, from carrying on a trade or business as a sole proprietor or as a general partner in a partnership or a venturer in a venture. The tax is designed to afford Social Security coverage to self-employed individuals. The tax is levied as part of the estimated tax liability of self-employed persons. The self-employment tax is imposed on "self-employment income," which is based on "net earnings from self-employment." Net earnings from self-employment includes a Venturer's allocable share (whether or not distributed) of income or loss from any trade or business carried on by the Venture.

While the portion of self-employment tax allocable to Social Security is subject to an annual earnings cap, the portion of the self-employment tax allocable to Medicare is not subject to such cap and, therefore, participation in the Venture by an investor who has otherwise paid his or her maximum Social Security tax for the year (either through self-employment tax or through FICA tax as an employee) could still subject the investor to an additional Medicare tax liability with respect to his or her share of Venture income.

Sales of Interest in the Venture. If a Venturer sells his or her interest in the Venture pursuant to the provisions of the Joint Venture Agreement, he or she will recognize taxable gain or loss on the sale measured by the difference between the amount realized by him or her on such sale and his or her adjusted tax basis in his or her Venture interest. The amount realized by such Venturer will include his or her allocable share of Venture debt, if any, as well as the amounts paid to him or her as a result of the sale. If the Venture interest has been held by the selling Venturer as a capital asset for more than one year, the realized and recognized gain or loss on the sale likely will be taxed as long-term capital gain or loss, except to the extent the sale price is attributable to unrealized receivables (which includes depreciation, depletion and Intangible Cost recapture) or appreciated inventory. The portion of the sale price attributable to those items will be taxed to the selling Venturer as ordinary income.

Liquidation of the Venture. On expiration of its term or as otherwise provided in the Joint Venture Agreement, the Venture will dissolve and, if not reconstituted, after payment of its liabilities, distribute its property or proceeds from the sale of its property to the Venturers in complete liquidation. Each Venturer will recognize gain or loss as a result of the Venture's sale of its assets. Assuming each item of Venture property is distributed to the Venturers on a pro rata basis, each Venturer will recognize gain to the extent any money distributed exceeds the adjusted basis of such Venturer's interest in the Venture immediately before the distribution. A Venturer may recognize loss on the liquidating distribution if no property other than cash, unrealized receivables (which include depreciation, depletion and Intangible Cost recapture) and inventory are distributed to a Venturer. Such Venturer will recognize such loss only to the extent the adjusted basis of such Venturer's interest in the Venture exceeds the sum of the cash, the basis of unrealized receivables (which include depreciation, depletion and Intangible Cost recapture) and the basis of inventory distributed. The basis of property distributed to each Venturer (other than cash) will be an amount equal to the adjusted basis of such Venturer's interest in the Venture reduced by the amount of cash distributed to him or her. The tax consequences of the liquidation of

the Venture described herein reflect only the general rules for such a liquidating distribution. On actual liquidation of the Venture, various exceptions to these rules may alter the tax consequences described above. Therefore, each prospective Venturer is urged to consult its own tax advisor regarding the tax consequences to it of a liquidation of the Venture.

Activities Engaged in for Profit. Code section 183 provides that if an activity is not "engaged in for profit," the only amounts deductible with respect to that activity are: (1) those expenses that would be deductible whether or not incurred in connection with an activity engaged in for profit, (e.g., certain interest and taxes); and (2) those expenses otherwise deductible had the activity been engaged in for profit, but only to the extent of the income from the activity, reduced by otherwise allowable non-business deductions. Although Code section 183(a) refers to an activity engaged in by an individual, it also applies to the activities of a partner in a partnership. See Revenue Ruling 77-220, 1977-2 C.B. 78; Edward B. Hager, 76 T.C. 759 (1981). Moreover, in determining whether Code section 183 applies to a partnership, the Tax Court has determined that the question is whether the partnership itself (rather than the individual partners) has the proper profit objective. See Taube v. Commissioner, 88 T.C. 464 (1987) and Brannen v. Commissioner, 78 T.C. 471 (1982). However, it is possible that the Service might take the position that Code section 183 will also apply to an individual partner of a partnership or a joint venturer in a joint venture if that partner or venturer lacks the proper profit objective, notwithstanding the existence of such objective at the partnership or joint venture level. If it is determined the Venture or a Venturer is not engaged in an activity for profit, a substantial portion of the deductions arising from Venture operations could be disallowed. The issue of whether an activity is engaged in for profit is primarily a question of fact. The resolution of this issue may be based in part on the intent of the Venturers, as evidenced by objective factors. THEREFORE, NO ONE SHOULD PARTICIPATE IN THE VENTURE UNLESS HIS OR HER OBJECTIVE IS TO SECURE AN ECONOMIC PROFIT SEPARATE AND APART FROM ANY TAX BENEFITS THAT MAY FLOW FROM THE VENTURE.

Allocations. In general, allocations of all Venture items of income, gain, loss, deduction and credit must have "substantial economic effect" to be recognized for federal income tax purposes. An allocation will have substantial economic effect if it satisfies a two-part test. First, the allocation must have economic effect. Second, the economic effect must be substantial. If an allocation lacks "substantial economic effect," the IRS will disregard the allocation, and will determine a Venture's allocable share in accordance with the Venturer's interest in the Venture.

With respect to the second test, the regulations generally provide that the economic effect of an allocation is substantial if there is a reasonable possibility that the allocation (or allocations) will affect substantially the dollar amounts to be received by the partners from the partnership, independent of tax consequences. However, the regulations provide that the economic effect of an allocation (or allocations) is not substantial if at the time the allocation becomes part of the partnership agreement: (i) the after tax economic consequences of at least one partner may, in present value terms, be enhanced compared to such consequences if the allocation (or allocations) were not contained in the partnership agreement; and (ii) if there is a strong likelihood that the after tax economic consequences of no partner will, in present value terms, be substantially diminished compared to such consequences if the allocation (or allocations) were not contained in the partnership agreement.

According to the regulations, an allocation will have economic effect if the partner to whom the allocation is made receives the economic benefit or bears the economic burden or risk associated with the allocation. The regulations state that, in general, an allocation will have economic effect if throughout the term of the partnership the partnership agreement:

(i) provides for the determination and maintenance of the partners' capital accounts in accordance with the rules set forth in the regulations;

(ii) requires that on liquidation of the partnership (or any partner's interest in the partnership), liquidating distributions must in all cases be made by the later of the end of the taxable year in which the liquidation occurs or 90 days after the liquidation, in accordance with the positive capital account balances of the partners; and

(iii) either obligates a partner with a deficit in his or her capital account following the liquidation of his or her interest in the partnership to restore such deficit or contains a so-called "qualified income offset" pursuant to which a partner that unexpectedly receives certain allocations, adjustments or distributions will be allocated income and gain in an amount and manner sufficient to eliminate any deficit capital account balance of such partner as quickly as possible.

If a partnership agreement contains a qualified income offset instead of a deficit restoration clause (as does the Joint Venture Agreement) the allocation will have economic effect only to the extent it does not create or increase a deficit capital account balance.

In each case, capital account balances must be determined after taking into account all adjustments for the partnership taxable year in which the liquidation occurs. The courts have also used a capital account analysis to determine whether an allocation should be recognized for federal income tax purposes (e.g., Allison v. Interested States, 701 F.2d 933 (Fed. Cir. 1983); Goldfine v. Commissioner, 80 T.C. 843 (1983); Holladay v. Commissioner, 72 T.C. 571 (1979), aff'd, 649 F.2d 1176 (5th Cir. 1981); Orrisch v. Commissioner, 55 T.C. 395 (1970)).

The allocations of federal income tax items to the Venturers made in the Joint Venture Agreement should satisfy the "substantiality" portion of the test in the Regulations because the economic consequences of the allocations should be equivalent to the tax consequences of such allocations. However, the allocation of federal income tax items to the Venturers made in the Joint Venture Agreement do not satisfy the safe harbor for "economic effect" because the Joint Venture Agreement provides that liquidating distributions will be made to the Venturers in accordance with their right to receive operating distributions from the Venture (i.e., generally 99% to the Venturers and 1% to the Managing Venturer). Therefore, allocations in the Joint Venture Agreement must be made in accordance with the Venturers' interests in the Venture. Because the Joint Venture Agreement generally allocates profits and losses in the same manner as cash distributions are made, the Managing Venturer believes that these allocations are in accordance with the Venturers' interests in the Venture. However, there can be no assurance that the IRS will not challenge the allocations in the Joint Venture Agreement and attempt to reallocate profits and losses (and the tax obligations associated with such items) among the Venturers.

Election to Adjust Tax Basis of Venture Property. As a result of the tax accounting complexities inherent in, and the substantial expense that would be attendant to, making the election to adjust the tax basis of Venture property provided by Code sections 734, 743, and 754, the Managing Venturer does not presently intend to make such election on behalf of the Venture. The absence of any such effective election and of the power to compel the making of such an election may, in many circumstances, result in a reduction in value of a Venturer's interest to any potential transferee and may be considered an additional impediment to the transferability of Venture interests.

Repayment of Loans. Each Venturer will be subject to U.S. federal income tax on his or her allocable share of the net taxable income of the Venture, whether or not such income is actually distributed to him or her. Advances against production received by the Venture (such as a loan or an advance secured by a specific share of future production), if any, should be treated as loans to the Venture and should not be recognized as income by the Venture on receipt. Proceeds from production used to pay such advances or other loans will be ordinary income, subject to depletion, to the Venture in the year the production is realized. The principal portion of repayments will not be deductible by the Venture, but the Venture may be entitled to a deduction of interest, if any, paid on the advances or loans. During repayment of such advances or loans, the taxable income of the Venturers from the property subject to the advance or loan may be greater than the net cash proceeds there from distributed to them. Therefore, taxes will be payable on revenues used to repay the principal amount of the advance or loan, as well as on remaining Venture revenues available for distribution, whether or not actually distributed.

Limitations on Passive Activity Losses. In general, a taxpayer may not deduct losses from a passive activity against income from wages and salaries (or other so-called "active" income) or against income from interest, dividends and royalties ("portfolio income"). However, a taxpayer may deduct against such income losses from activities in which the taxpayer materially participates (subject to other limitations in the Code). The passive activity loss rules apply to individuals, estates, trusts, closely held C corporations, and "personal service corporations." An activity will be classified as "passive" if the activity is a rental activity or it involves the conduct of a trade or business in which the taxpayer does not "materially participate." A taxpayer materially participates in an activity if the taxpayer is involved in the operations of the activity on a regular, continuous, and substantial basis. In general, a taxpayer is not treated as materially participating in an activity if his or her interest in that activity is held as a limited partner in a limited partnership.

In computing a taxpayer's passive activity loss limitation, the taxpayer must determine his or her aggregate deductions and losses from all passive activities for the taxable year and offset them against his or her aggregate income and gains from passive activities during the taxable year. Similarly, the taxpayer must aggregate all credits earned during

the taxable year from passive activities and offset them against the tax liability allocable to all passive activities during the taxable year. Although a taxpayer is permitted to offset losses from one passive activity against income and gains from another passive activity, the taxpayer may not offset his or her losses from passive activities against his or her wages, salary, or other income derived from the active conduct of a business, nor against income from interest, dividends, or royalties not derived in the ordinary course of a trade or business, or against the gain from the sale of property producing such income.

Should a taxpayer have net losses from passive activities and net credits from passive activities, both net losses and credits may be carried forward indefinitely and deducted against any future net income and tax liability, respectively, from passive activities. Any unused losses are held in suspense until the taxpayer disposes of his or her entire interest in the passive activity in a taxable transaction to an unrelated person. On disposition of a passive activity, the taxpayer is generally permitted to deduct the suspended passive losses against the taxpayer's other income or gain (after first offsetting them against gain recognized on the disposition and against net income for the taxable year from all passive activities). Suspended credits, however, must continue to be carried forward until used to offset tax on income from other passive activities. If the disposition is because of the taxpayer's death, the suspended losses can only be used to the extent they exceed the amount by which the property's basis is increased as a result of the taxpayer's death. If a disposition is by means of an installment sale, the suspended losses may only be recognized in any taxable year to the extent of the percentage of the total gain on the sale that is recognized during that taxable year.

Material participation, however, is not in all cases determinative as to whether an activity is a "passive activity." Under the "working interest exception," working interests in oil and gas properties are not treated as passive activities (regardless of whether the taxpayer materially participates) if the taxpayer owns the interest directly or through an entity that does not limit his or her liability with respect to the working interest. Two elements must be met before a taxpayer qualifies for the working interest exception to the passive activity loss rules, so that losses will not be treated as losses from a passive activity. First, the property generating the losses must constitute a "working interest" as defined by the passive loss rules. Second, the interest must not be held through an entity that limits the liability of the taxpayer with regard to the working interest.

With respect to the first part of the test, the Treasury Regulations indicate that a "working interest" does not include non-operating mineral interests such as royalty interests, production payments, or net profits interests. The Report of the Committee on Finance, Interested States Senate, to Accompany H.R. 3838, S. Rep. No. 99-313, 99th Cong., 2d Session 744, 745 (1986) ("Senate Finance Committee Report"), indicated that a "working interest" generally has characteristics such as "responsibility for signing authorizations for expenditures with respect to the activity, receiving periodic drilling and completion reports, receiving periodic reports regarding the amount of oil extracted, possession of voting rights proportionate to the right to continue activities if the present operator decides to discontinue operations, a proportionate share of tort liability with respect to the property (e.g., if a well catches fire), and some responsibility to share in further costs with respect to the property in the event that a decision is made to spend more than the amounts already contributed." Nevertheless, "the fact that a taxpayer is entitled to decline, or does decline, to make additional contributions does not contradict the taxpayer's possession of a working interest. In addition, the fact that tort liability may be insured against does not contradict such taxpayer's possession of a working interest."

The second part of the test requires that the "working interest" be held directly or not held through an entity that limits the taxpayer's liability with respect to the working interest. The Senate Finance Committee Report indicates that an interest owned through a limited partnership or through a form of ownership that is substantially equivalent in its effect on liability to a limited partnership interest will not qualify for the working interest exception. Although the Venture or the Operator intends to obtain insurance to protect against various liabilities, to the extent the insurance coverage obtained by the Venture fails to cover a particular risk or is insufficient to pay the entire amount of a particular claim or to the extent the insurer is financially insolvent or otherwise unable to pay a particular claim, the Venturers will bear the ultimate liability for losses with respect to the Venture. In addition, the Treasury Regulations provide that the presence of insurance is not taken into account in determining whether the taxpayer holds a working interest through an entity that limits the taxpayer's liability. Although it is possible that the Service might take a contrary position and that, if litigated, a court might sustain such position, the Managing Venturer believes that, if challenged, the interests in the Venture held by the Venturers should not be deemed substantially equivalent in their effect on liability to a limited partnership interest. Each prospective Venturer should be aware, however, that even if the Venture itself is not an entity that limits the liability of the Venturer with respect to the activity, no person will be deemed to materially participate in the Venture's

activities (and losses allocated to that individual will be deemed losses from a passive activity) if such person owns his or her individual interest in the Venture through an entity, such as a limited partnership, limited liability company or an S corporation, that limits the liability of that individual with respect to the Venture.

If and to the extent the Service is successful in contending either that the Venturers do not own oil or gas working interests as defined in the passive loss rules or that the form in which the Venturers own the Venture property has an effect on the Venturer's liability similar to that of a limited partnership, a Venturer's share of any losses generated by the Venture would constitute passive losses, which the Venturer could deduct only to the extent of such Venturer's passive income.

At Risk Limitation on Deductions for Expenses. The "at risk" limitation provisions of the Code restrict the amount of loss a participant can deduct in connection with activities conducted in "exploring for, or exploiting oil and gas resources." Under this rule, all non-corporate taxpayers and certain corporate taxpayers that sustain a loss in connection with oil and gas activities may deduct such loss only to the extent of the amount "at risk" in such activities at the end of a taxable year. This limitation applies to each activity engaged in and not on an aggregate basis for all activities. For the purpose of initially computing the amount of such limitation, the amount "at risk" for each taxpayer is limited to: (1) the amount of money contributed to the activity, (2) the adjusted basis of other property contributed to the activity, and (3) any amount borrowed with respect to the activity for which the taxpayer is personally liable for repayment or with respect to which he or she has pledged property (other than property used in the activity) as security for the repayment of the amount borrowed from any person other than a person who has an interest in the activity or who is a related party (as defined), limited however, to the net fair market value of his or her interest in such pledged property. "Loss" is generally defined as the excess of allowable deductions for a taxable year from an activity over the amount of income actually received or accrued by the taxpayer during such year from the activity.

The amount the taxpayer has "at risk" may not include the amount of any loss against which the taxpayer is protected through non-recourse financing, guarantees, stop loss agreements or other similar arrangements. The amount of any such loss disallowed in any taxable year shall be carried over to the first succeeding taxable year. Further, a taxpayer's "at risk" amount in subsequent taxable years with respect to the activity involved shall be reduced by that portion of the loss allowable as a deduction and the amount of money withdrawn from the activity.

At Risk Recapture of Losses. The "at risk" rules also provide that a Venturer must recognize income to the extent his or her "at risk" basis is reduced below zero (limited to loss amounts previously allowed to the Venturer over any amounts previously recaptured). Distributions to a Venturer, changes in the amount of recourse indebtedness attributable to a Venturer or the commencement of guarantees or similar arrangements may reduce a Venturer's amount "at risk." A Venturer may be allowed a deduction for the recaptured amounts included in taxable income if he or she increases his or her amount "at risk" in a subsequent taxable year.

Oil and Natural Gas Tax Credits. Federal income tax credits may be available for the production of oil and natural gas from certain types of Well and/or with certain types of recovery methods. The tax credits depend upon a number of different factors such as, for example, the location of the well, the production level of the well, the production methods used and the price of oil and natural gas. Due to the factual nature of this issue, the Managing Venturer is unable to and does not express an opinion as to whether any Venturer will be entitled to federal income tax credits for the production of oil and gas as a result of a Venture's operations. Each Venturer should consult its own tax advisor regarding the U.S. federal income tax credits that may be available in connection with its participation in the Venture.

Tax Preference Income; Alternative Minimum Tax. A U.S. citizen or resident alien (in addition to corporations, trusts and estates which are not specifically addressed herein) is subject to an "alternative minimum tax" on certain tax preference items. The Treasury Regulations require that a venturer, in computing his or her individual tax preference items, take into account separately those income and deduction items of a partnership that enter into his or her computation of tax preference items. The Venture will generate tax preference items attributable to its current deduction of Intangible Costs to the extent of the amount by which the individual Venturer's "excess intangible drilling costs" for the year exceeds 65% of his or her net income from his or her oil and gas properties for that year. "Excess intangible drilling costs" are defined as the excess of the allowable Intangible Costs paid or incurred in connection with productive oil and gas Well, over the portion of those costs, if any, that would have been allowable for the tax year if capitalized and (1) amortized on the basis of a 10-year life, beginning with the month in which production from such well begins, or (2)

recovered through cost depletion. Intangible Costs with respect to the drilling of a nonproductive well are not subject to the above computation of tax preference items. However, with respect to Venturers who are "independent producers," (as defined in Code section 57(a)(2)(E)), the treatment of excess intangible drilling costs as a tax preference item does not apply to the extent that the reduction in alternative minimum taxable does not exceed 40%. A Venturer in the Venture may also realize tax preference items for any taxable year attributable to percentage depletion in excess of depletable basis (determined without regard to the depletion deduction for the taxable year).

The alternative minimum tax for individuals is a two-tier rate system. A 26% rate applies to the extent that alternative minimum taxable income less the exemption amount does not exceed $175,000 ($87,500 for married taxpayers filing separately). Above that dollar amount a 28% rate applies. Alternative minimum taxable income is defined as taxable income recomputed to take into account adjustments and tax preference items, such as excess Intangible Costs. The exemption amount for 2009 is $70,950 for a joint return or surviving spouse, $46,700 for an unmarried individual other than a surviving spouse, and $35,475 for married individuals filing separate returns. For tax years after 2009, the alternative minimum tax exemption amount currently is scheduled to be reduced to (i) $45,000 in the case of a joint return or a surviving spouse, (ii) $33,750 in the case of an individual who is neither a married individual nor a surviving spouse, (iii) $22,500 in the case of a married individual who files a separate return, and (iv) $22,500 in the case of an estate or trust. In addition, a taxpayer must reduce his or her exemption amount by 25% of the amount by which his or her alternative minimum taxable income exceeds $150,000 ($112,500 for single persons who are not surviving spouses and $50,000 for married persons filing separate returns). An individual is required to pay the alternative minimum tax only if the amount of such tax exceeds his or her "regular tax," as defined in the Code.

Venturers may individually elect to amortize their allocable shares of the Venture's Intangible Costs over a five-year period beginning with the year the expenditure is made. If this election is made, there will be no preference items on these amounts. However, such amounts will still be treated as Intangible Costs for purposes of the recapture rules.

The alternative minimum tax and, specifically, the exemption amounts, have been the subject of numerous legislative proposals and temporary one-year "patches" over the last several years. Therefore, it is possible that the alternative minimum tax and/or the exemption amounts discussed above could be modified or changed by future legislation. Therefore, each prospective Venturer is urged to consult its own tax advisor regarding the alternative minimum tax.

Unrelated Business Income Tax for Tax Exempt Investors and IRAs. Taxpayers that are normally exempt from U.S. federal income taxation such as qualified retirement plans, 501(c) non-profit organizations and individual retirement accounts and annuities ("IRAs") are nonetheless taxable on the income that they earn from a trade or business that is deemed to be unrelated to their tax exempt purpose. The ownership of a working interest in an oil or gas well, whether directly or as a venturer in a venture that owns a working interest, is deemed to be such an unrelated business. As a result, a tax exempt investor that becomes a Venturer will likely be subject to tax on its income from the Venture. In addition, for Venturers that invest with money from their IRAs, it is possible that the Venture's earnings could be subject to tax twice: once when amounts are earned by the Venture and then again when distributions are made from the IRA to the investor. For certain tax exempt entities, such as charitable remainder trusts and charitable remainder unit trusts (collectively, a "CRT"), the receipt of any UBTI during a taxable year will cause the CRT to become taxable on all of its income from all sources for the taxable year. As a result, interests in the Venture are not suitable investments for CRTs, and Venture interests will not be sold to CRTs. Tax exempt investors, including IRA investors, are urged to consult their tax advisors as to the advisability and the tax effects of becoming a Venturer.

State and Local Income Taxes. Certain states or localities where the Venture may engage in business or where the Venturers may reside may levy income taxes for which the Venturers may be liable with respect to their share of the Venture income, and it may be necessary for each Venturer to file state or local income tax returns to report income in such jurisdictions. In addition, as a result of the Venture's operations, the Venture may be required to pay various state and local taxes. The Venture's payment of such state and local taxes will reduce the Venture's cash that is otherwise available to distribute to the Venturers. In addition, the discussion of the tax aspects of participating in the Venture in this Memorandum is generally limited to certain material U.S. federal tax considerations. Therefore, each prospective Venturer is urged to consult his or her own tax counsel regarding the state and local income tax consequences of becoming a Venturer.

Reportable Transaction Rules. Under U.S. federal tax law certain types of transactions (so-called "reportable

transactions") generally must be disclosed to the IRS by the participants on IRS Form 8886 and by the material advisors on information returns. In addition, material advisors to reportable transactions must prepare and maintain lists of the persons they advise and provide the lists to the IRS upon written request. If a participant or material advisor to a reportable transaction fails to properly report it to the IRS, the participant or material advisor could be subject to substantial tax penalties.

The Managing Venturer has concluded that the sale of Interests in the Venture and the Venture's anticipated operations should not constitute reportable transactions. Accordingly, the Managing Venturer has concluded that it is not obligated and, therefore, does not intend to comply with these disclosure or list maintenance requirements. There can be no assurance or guarantee that the IRS will agree with this determination. Significant penalties could apply if a party to a reportable transaction fails to comply with these rules, and such rules are ultimately determined to be applicable. As a result, you are urged to consult with your tax advisor regarding whether you are required to disclose your participation to the IRS on Form 8886.

Audit of Tax Returns. The tax returns of the Venture may be audited by the Service and such audit may result in adjustments. Any adjustment of the Venture's tax return would at a minimum result in a corresponding adjustment of the federal income tax liability of individual Venturers, and may result in a full audit of their individual tax returns (thereby potentially resulting in adjustments to non-Venture, as well as Venture, income and deductions). In addition, an initial audit of a Venturer's individual tax return could result in the audit of the Venture tax return, thereby possibly triggering the consequences just indicated to all Venturers in the Venture.

On audit, the tax treatment of so-called "partnership items" will be determined at the Venture level in a unified audit proceeding. A "partnership item" is any item required to be taken into account for the Venture's taxable year under any provision of subtitle A of the Code to the extent Treasury Regulations provide that such item is more appropriately determined at the Venture level than at the Venturer level. Venturers (other than venturers with less than a 1% interest in the profits of a venture with more than 100 venturers), referred to as "Notice Partners," would be notified at the beginning of the Venture audit proceeding and as to the final partnership administrative adjustment ("FPAA"). The Managing Venturer has been designated as the "Tax Matters Partner" for the Venture. On settlement with any Venturer prior to mailing a notice of the FPAA to the Tax Matters Partner, the Service will be required to offer consistent settlement terms with any other Venturer who requests such settlement terms before the expiration of 150 days after such mailing of the FPAA to the Tax Matters Partner. Only the Venture, through the Tax Matters Partner, will have a right to contest the Service's determination in court within 90 days following the notice of FPAA. If the Tax Matters Partner does not file a petition for judicial review, any other Notice Partner would have a right to file such petition, within 60 days following such 90-day period. However, only one proceeding may go forward on behalf of the Venture, which would be the first action filed in the Tax Court, or, if no petition is filed with the Tax Court, the first action filed by a Venturer in either a Interested States District Court or the Interested States Court of Federal Claims. All other actions would be dismissed. However, each Venturer with an interest in the outcome would be allowed to participate in the action. The court acquiring jurisdiction of the proceedings will have jurisdiction to determine all items of the Venture's taxable year to which the FPAA relates and the proper allocation of such items among the Venturers. The decision of that court would be reviewable if the Tax Matters Partner or any Notice Partner seeks review. The Tax Matters Partner may file a petition for review with respect to any part of the requested adjustment that is disallowed, in which case other Venturers would be treated as parties to the action. Suits by individual Venturers, other than the Tax Matters Partner, would also be allowed with respect to certain disallowed items in requests for administrative adjustment filed by such Venturers, with certain limitations. The Tax Matters Partner is required to keep the Venturers informed of all administrative and judicial proceedings.

The Venture-specific period of time in which assessments of deficiencies and claims for refunds may be made with respect to federal income taxes attributable to "partnership items" is three years from the date of filing of the Venturer's return or, if later, the last date prescribed for filing such return determined without regard to extensions. The period may be extended with respect to any Venturer by agreement with such Venturer, or for all Venturers by agreement with the Tax Matters Partner. Additionally, assessments may be made at any time against Venturers who sign or actively participate in a fraudulent return. Also, as to other Venturers affected by such return the period of assessment is extended from three to six years. The period of limitations is also six years in any case in which there is an omission from gross income of any amount properly includable that exceeds 25% of the amount of the gross income stated in the return. If the Venture does not file a return, assessments may be made at any time.

Penalty for Substantial Understatements. Code section 6662, in part, imposes an accuracy-related penalty of 100% of the amount of any underpayment attributable to (i) negligence or intentional disregard of rules or regulations; and (ii) "substantial understatements" of income tax. A "substantial understatement" is defined as a reported liability that understates the amount of tax owed by the greater of 10% of the tax required to be shown on the return or $5,000 ($10,000 for corporations other than S corporations and personal holding companies). An understatement is reduced by that portion of the understatement attributable to an item (other than a "tax shelter" item) if there is "substantial authority" for the taxpayer's treatment of such item on his or her return or if the taxpayer's return (including the Venture return in the case of a partnership item) adequately discloses the facts relating to the item's tax treatment and there is a reasonable basis for such treatment. The Treasury Regulations provide that the "substantial authority" standard requires stronger support than a mere "reasonable basis" for taking the position but the treatment need not be "more likely than not" the proper treatment. Under Treasury Regulations, there is substantial authority for the tax treatment of an item only if the weight of the authorities supporting the treatment is substantial in relation to the weight of authorities supporting contrary positions.

(1) In the case of a "tax shelter," the reductions described in the above paragraph for adequate disclosure and substantial authority do not apply. A "tax shelter" is defined as a (i) a partnership or other entity, (ii) any investment plan or arrangement, or (iii) any other plan or arrangement, if a significant purpose of such partnership, entity, plan, or arrangement is the avoidance or evasion of federal income tax.

(2) There is a special accuracy-related penalty for reportable transactions and listed transactions. The penalty is equal to (i) 100% of the amount of an understatement attributable to adequately disclosed reportable transactions and listed transactions if a significant purpose of the transactions is the avoidance or evasion of federal income tax, and (ii) 30% of the amount of an understatement attributable to reportable transactions and listed transactions that are not adequately disclosed. An "understatement" is the sum of (1) the product of the highest corporate or individual income tax rate (as appropriate) and (2) the increase in the taxable income resulting from the difference between the taxpayer's treatment of an item and the proper treatment of an item.

(3) There is an exception to this penalty for taxpayers that are able to show that (i) there was reasonable cause for the tax position taken and (ii) they acted in good faith. In order to qualify for this exception, a taxpayer must show that (i) there was adequate disclosure of the transaction as required by the Treasury Regulations, (ii) there is or was substantial authority for the treatment, and (iii) the taxpayer reasonably believed that the treatment on the return was more likely than not the proper treatment. A taxpayer will only be considered to have a reasonable belief regarding the tax treatment if the belief (1) is based on facts and law at the time the tax return that includes the item is filed, and (2) relates solely to the taxpayers' chances of success on the merits and does not take into account the possibility that (a) the return will not be audited, (b) the treatment will not be raised on audit, or (c) the treatment will be resolved through settlement if raised.

(4) A taxpayer generally may rely on a tax advisor's opinion in establishing a reasonable belief, unless the opinion is a "disqualified opinion," or it is provided by a "disqualified tax advisor." An opinion by a tax advisor is a disqualified opinion if it (i) is based on unreasonable factual or legal assumptions (including assumptions about future events), (ii) unreasonably relies, on representations, statements, findings, or agreements of the taxpayer or any other person, (iii) does not identify and consider all relevant facts, or (iv) fails to meet any other requirement the Secretary of the Treasury may prescribe. A "disqualified tax advisor" is any advisor who (i) is a material advisor and who participates in the organization, management, promotion or sale of the transaction or who is related to any person who so participates, (ii) is compensated directly or indirectly by a material advisor with respect to the transaction, (iii) has a fee arrangement with respect to the transaction that is contingent on all or part of the intended tax benefits from the transaction being sustained, or (iv) as determined under the Treasury Regulations, has a disqualifying financial interest with respect to the transaction.

EACH PROSPECTIVE VENTURER IS URGED TO CONSULT HIS OR HER PERSONAL TAX ADVISOR WITH RESPECT TO THE SUBSTANTIAL UNDERSTATEMENT PENALTY.

Reports. The Venture will annually compute its taxable income or loss for the appropriate taxable period. In computing such taxable income or loss, it will deduct Intangible Costs, depreciation and other deductible costs to the extent allowable under applicable federal income tax laws and regulations. Each Venturer will compute his or her

depletion deduction individually. The Venture will file federal income tax returns that will be for information purposes only, and it will not pay federal income tax on the taxable income computed on that return. Each Venturer will be furnished either a copy of the Venture's federal income tax return or extracts of information therefrom suitable for his or her use in the preparation of his or her individual income tax return, and each Venturer will include in his or her individual federal income tax return his or her allocable share of the Venture taxable income (whether or not distributed) or loss, as computed on the federal income tax return of the Venture.

Each Venturer is required to treat Venture items on his or her return consistently with the treatment on the Venture's return unless the Venturer files a statement with the Service identifying the inconsistency. If a Venturer fails to satisfy these requirements the Service may assess any deficiency attributable to any computational adjustment required to make the treatment consistent with the Venture return without commencement of a Venture proceeding or notification to the Venturer that the inconsistent item will be treated as a non-venture item.

If a Venturer sells an interest in the Venture, the selling Venturer must promptly notify the Venture of such transfer. The Venture is required to file a return for the year of the sale setting forth the name and address of the selling Venturer and the transferee. By regulation the Secretary of the Treasury may require other information and establish rules regarding the time and manner for filing this return. The Venture must also furnish the information shown on the return to the persons named therein. A penalty may be imposed for failure to give notice, file the return or furnish information in a timely manner.

Venturers Required to Maintain Information. Venturers are required to maintain records concerning their share of the basis of oil and gas properties and the related depletion allowances. The Venture will allocate the adjusted basis of each oil and gas property to the Venturers as set forth in the Joint Venture Agreement, and provide a report of such allocation to each Venturer, who then must keep his or her own records.

Possible Changes in Federal Tax Laws. The statutes and regulations with respect to all of the foregoing tax matters are subject to continual change by Congress and the Department of Treasury. Similarly, interpretations of these statutes and regulations may be modified or affected by judicial decision or administrative interpretations by the Department of Treasury. Any such change may have an effect on the discussion set forth above.

Furthermore, in recent years there have been a number of other proposals made in Congress by government agencies and the executive branch of the federal government for changes in federal income tax laws. There have recently been some legislative proposals specifically concerning the tax treatment of exploring for and producing oil and gas, and some of those proposals reduce or eliminate some of the tax benefits described in this Memorandum.

In addition, the Service has proposed and is still considering changes in regulations and procedures, and numerous private interest groups have lobbied for regulatory and legislative changes in federal income taxation. Many of such proposals might, if adopted, have the overall effect of reducing the tax benefits presently associated with participating in partnerships such as the Venture.

It is likely that further proposals will be forthcoming or that previous proposals will be revived in some form in the future. It is impossible to predict with any degree of certainty what past proposals may be revived or what new proposals may be forthcoming, the likelihood of adoption of any such proposals, the likely effect of any such proposals upon the income tax treatment presently associated with oil and gas ventures, investments, or the Venture, or the effective date of any legislation which may derive from any such past or future proposals.

CONSULTATION WITH PERSONAL TAX ADVISORS. THE FOREGOING DISCUSSION IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. EACH PROSPECTIVE VENTURER IN THE VENTURE IS URGED TO CONSULT HIS OR HER OWN TAX ADVISOR CONCERNING (I) THE APPLICABILITY TO AND AFFECT ON HIM OR HER OF THE INTERESTED STATES INCOME TAX LAWS AND THEIR ADMINISTRATION, AND (II) THE APPLICABILITY TO AND AFFECT ON HIM OR HER OF STATE, LOCAL AND FOREIGN TAX LAWS AND THEIR ADMINISTRATION.

ANY TAX BENEFITS OF OIL AND GAS EXPLORATION DO NOT ELIMINATE THE RISKS.

COMPETITION, MARKETS AND REGULATION

Competition. The oil and gas industry is highly competitive. The Venture will encounter frequent and intense competition from both major oil companies and other independent operators in its effort to secure the equipment necessary in the completion of Well. Many of such competitors have financial resources and staffs larger than those available to the Venture. However, in view of the current domestic surplus of oil and gas, it is not anticipated that the costs of the equipment necessary to explore the Prospect Well will increase appreciably.

Markets. The ability of the Venture to market oil and gas found and produced, if any, will depend on numerous factors beyond its control, the effect of which factors cannot be accurately predicted or anticipated. These factors include the availability of other domestic and foreign production, the marketing of competitive fuels, the proximity and capacity of pipelines, fluctuations in supply and demand, the availability of a ready market and the effect of federal and state regulation of production. There is no assurance that the Venture will be able to market any oil or gas found by the Venture at favorable prices, if at all.

Regulation.

General. The Venture's Operations may be affected from time to time in varying degrees by political developments and federal and state laws and regulations. In particular, oil and natural gas production operations and economics are or have been affected by price control, tax and other laws relating to the oil and gas industry, by changes in such laws and by changing administrative regulations. There are currently no price controls on oil or gas condensate. To the extent price controls remain applicable after the enactment of the Natural Gas Wellhead Decontrol Act of 1989, the Managing Venturer is of the opinion that such controls will not have a significant impact on the prices received by the Venture for natural gas produced in the near future.

Legislation affecting the oil and natural gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue and have issued rules and regulations binding on the oil and gas industry and its individual members, compliance with which is often difficult and costly and certain of which carry substantial penalties for the failure to comply. The Managing Venturer cannot predict how existing regulations may be interpreted by enforcement agencies or the courts, nor whether amendments or additional regulations will be adopted, nor what effect such interpretations and changes may have on the Venture's business or financial condition.

Federal Taxation. The federal government is continually proposing tax initiatives that may affect the oil and natural gas industry, including the Venture. Due to the preliminary nature of these proposals, the Venture is unable to determine what effect, if any, the proposals would have on product demand or the Venture's results of operations.

State Regulation. The states in which the Venture conducts activities regulate the drilling, operation and production of oil and natural gas Well, such as the method of developing new fields, spacing of Well, the preventions and clean-up of pollution, and maximum daily production allowables based on market demand and conservation considerations.

Environmental Regulation. Operations of the Venture will be subject to numerous and constantly changing federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to the protection of public health or the environment. These laws and regulations may require the acquisition of certain permits, restrict or prohibit the types, quantities and concentration of substances that can be released into the environment, restrict or prohibit activities that could impact wetlands, endangered or threatened species or other protected natural resources and impose substantial liabilities for pollution resulting from the Venture's operations. Such laws and regulations may substantially increase the cost of doing business and may prevent or delay the commencement or continuation of a given project.

The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to claims against the Venture brought by either the government or third parties requiring the Venture to incur costs to remedial the discharge. Pollution and similar environmental risks generally are not fully insurable. The Venture does not believe that its environmental risks are materially different from those of comparable companies in the oil and gas industry. Inasmuch

as such laws and regulations are constantly revised, the Venture is unable to predict the ultimate cost it may incur as a result of compliance with present and future environmental laws and regulations.

In the opinion of the Managing Venturer the cost of compliance with such laws and regulations is not expected to be material. However, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on the operating costs of the Venture, as well as the oil and natural gas industry in general.

New Legislation. In the past, Congress has been very active in the area of oil and natural gas regulation. In addition, legislative proposals are pending in various states which, if enacted, could significantly affect the petroleum industry. On December 19, 2007, President Bush signed into law the Energy Independence and Security Act ("EISA"), a law targeted at reducing national demand for oil and increasing the supply of alternative fuel sources. While EISA does not appear to directly impact the Venture's operations or cost of doing business, its impact on the oil and gas industry in general is uncertain. No prediction can be made as to what additional legislation may be proposed, if any, affecting the competitive status of an oil and gas producer, restricting the prices at which a producer may sell its oil and/or gas, or the market demand for oil and/or gas, nor can it be predicted which proposals, including those presently under consideration, if any, might be enacted, nor when any such proposals, if enacted, might become effective.

LEGAL PROCEEDINGS

Currently, Alfaro Oil & Gas, LLC is the named defendant in a lawsuit brought by Jordan Oil Company, the operator in several projects that Alfaro has been a part of. The suit involves a disputed amount of money owed to Jordan by Alfaro, and the outcome is pending.

Also, Pinnacle Partners Financial Corporation, LLC and Alfaro Oil & Gas, LLC are named in a counterclaim in a suit against a former employee in which the former employee is claiming that he was wrongfully terminated. The former employee is claiming money damages and the matter is pending.

Alfaro Oil & Gas, LLC, Pinnacle Partners Financial Corporation, LLC, Primera Energy Partners, LLC, and Brian Alfaro individually are in arbitration with a Joint Venturer. The matter involves a contract dispute and the matter is pending.

Pinnacle Partners Financial Corporation, LLC is the plaintiff in two lawsuits concerning two former employees. The suit concerns violations of confidentiality and non-compete agreements. The matters are pending.

FURTHER INFORMATION

Alfaro will make available to any potential Venturer, or his or her attorney, accountant, tax advisor or representative, any other information deemed necessary and appropriate by the potential Venturer, or such other person, if any, including geological information, to the extent such information is available to Alfaro or may be obtained by it without unreasonable cost or effort. Such information should not be relied upon unless same is in writing and signed by an officer of Alfaro.

Exhibits:

Exhibit "A" The Screaming Eagle 1H Well Joint Venture Agreement
Exhibit "B" Subscription Agreement
Exhibit "C" Questionnaire
Exhibit "D" Turnkey Drilling Contract
EXHIBIT A

EXHIBIT "A"

ALFARO
OIL AND GAS, LLC

EXHIBIT "A"

JOINT VENTURE AGREEMENT

OF

THE SCREAMING EAGLE 1H WELL JOINT VENTURE

(A TEXAS JOINT VENTURE)

THIS JOINT VENTURE AGREEMENT is made and entered into effective December 5, 2011, by and among ALFARO OIL & GAS, LLC ("ALFARO"), a Texas Corporation with offices and principal place of business at 21022 Gathering Oak, Suite 2101, San Antonio, Texas 78260, as the Managing Venturer, and all of the parties admitted to the Joint Venture created hereby as Joint Venturers, as provided herein. All capitalized terms used herein shall have the meaning assigned thereto in Section 1.7 hereof, unless otherwise defined elsewhere herein.

ARTICLE I

GENERAL

1.1: **Formation of Joint Venture.** The parties hereby form a joint venture pursuant to the laws of the State of Texas, which shall be governed by this Agreement and the provisions of the Texas Business Organizations Code.

1.2: **Managing Venturer.** Alfaro shall be the Managing Venturer of the Joint Venture, and the address of such Managing Venturer is the address of Alfaro as designated above.

1.3: **Name.** The name of the Joint Venture shall be "THE SCREAMING EAGLE 1H WELL JOINT VENTURE." The name of the Joint Venture may be changed at any time and from time to time, or the Joint Venture may operate under different names in any jurisdiction in which the Joint Venture does business, as determined by Vote of the Venturers.

1.4: **Principal Business.** The purposes for which the Joint Venture is organized are:

(a) To acquire all or part of the Working Interest in that certain oil and gas Prospect Well ("Prospect Well") more fully described in the Memorandum (as defined herein), and relating to this Joint Venture;

(b) To acquire, drill or otherwise explore for, discover, develop, and operate the Prospect Well, or any interest therein whether on its own behalf or in association with others as joint venturer, partner or otherwise;

(c) To purchase, acquire, sell, dispose, explore, operate and produce oil, gas, minerals and properties and all things incident to the Prospect Well including, but not limited to the making of dry hole and bottom hole contributions, and with respect to the business of the Joint Venture, the construction and operation, alone or with others, of any project or operation incident to the Prospect Well for the treatment or refining of oil, gas and minerals and for the construction of systems for the production, collection, storage, treatment or delivery of the same or the products thereof;

(d) To perform any acts as the Joint Venture in its sole discretion determines to be necessary, desirable or convenient in accomplishing the foregoing purposes.

1.5: **Principal Place of Business.** The location of the principal place of business of the Joint Venture is 21022 Gathering Oak, Suite 2101, San Antonio, Texas 78260, or such other place or places as the Joint Venture determines by the Managing Venturer. The place of residence of each Venturer shall be as set forth on his or her Execution Page and Power of Attorney attached hereto as Exhibit "A." All such addresses shall be subject to change upon notice pursuant to Section 11.1 hereof.

1.6: **Term.** The Joint Venture shall be effective from and after the date that first appears on this document. The Joint Venture shall terminate on the earlier to occur of:

(a) December 5, 2051;

(b) Such date as the Ventures, by Vote, may elect;

(c) The business of the Venture has ceased; or

(d) such date as is required by Section 9.1 hereof.

1.7: **Definitions.** For the purposes of this Agreement, the following terms shall have the meanings indicated:

"ADDITIONAL ASSESSMENT CONTRIBUTIONS" means with respect to any Participating Venturer the sum of the Additional Assessments paid by such Participating Venturer on his or her own behalf plus the Additional Assessments paid by such Participating Venturer on behalf of a Non-Participating Venturer.

"ADDITIONAL ASSESSMENTS" means assessments of Venturers requested by the Joint Venture to fund Subsequent Operations.

"ADJUSTED CAPITAL ACCOUNT DEFICIT" means, with respect to any Venturer, the deficit balance, if any, in such Venturer's Capital Account as of the end of the taxable year, after giving effect to the following adjustments: (a) credit to such Capital Account that amount which such Venturer is obligated to restore under section 1.704-1(b)(2)(ii)(c) of the Treasury Regulations, as well as any addition thereto pursuant to the next to last sentence of sections 1.704-2(g)(1) and (i)(5) of the Treasury Regulations, after taking into account there under any changes during such year in partnership minimum gain (as determined in accordance with section 1.704-2(d) of the Treasury Regulations) and in the minimum gain attributable to any Venturer for nonrecourse debt (as determined under section 1.704-2(i)(3) of the Treasury Regulations); and (b) debit to such Capital Account items described in sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Treasury Regulations. This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Treasury Regulation sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

"AFFILIATE" with respect to the Managing Venturer means:

(a) any person or entity directly or indirectly owning, controlling or holding, with power to vote, ten percent (10%) or more of the outstanding voting securities of the Managing Venturer;

(b) any entity, 10% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the Managing Venturer;

(c) any person or entity directly or indirectly controlling, controlled by or under common control of the Managing Venturer;

(d) any officer, director or partner of the Managing Venturer; and

(e) if the Managing Venturer is an officer, director or partner, any company for which the Managing Venturer acts in any such capacity.

For purposes of this Agreement, any partnership of which Alfaro is a general partner, or any joint venture in which Alfaro is a joint venturer, is an Affiliate of Alfaro.

"AGREEMENT" or "JOINT VENTURE AGREEMENT" means this Agreement between Alfaro as the Managing Venturer, and the Venturers, together with all amendments hereto.

"AMOUNT REALIZED" means the amount realized by the Joint Venture for federal income tax purposes on a sale of a Joint Venture oil and gas property.

"CAPITAL ACCOUNTS" means with respect to any Venturer, the capital account maintained for such Venturer pursuant to Section 8.1 hereof.

"CAPITALIZATION PERIOD" means the period of time during which Venturers shall be accepted and initial capitalization amounts will be received, up to and including December 31, 2012, unless extended by the Managing Venturer for a period of not more than three hundred sixty (360) days; provided, however, that the Managing Venturer, in its sole and absolute discretion, may terminate the Capitalization Period at any time prior to such date.

"CODE" means the Internal Revenue Code of 1986, as from time to time amended and any federal legislation that may be substituted there for.

"COMPLETION" of a well is an indefinite term. In the context of the Venture, Completion shall mean the cleaning out of a well after reaching a specific depth, and/or conducting those processes or operations which the Managing Venturer decides to employ in a good faith effort to make a well capable of producing oil and/or gas in commercial quantities or determine that it will not produce oil and/or gas in commercial quantities. Such effort shall not require an obligation by the Managing Venturer or the Venture to attempt Completion in more than one potentially productive horizon or geological formation and does not include stimulation procedures or pumping or lifting equipment.

"FARMOUT" means an agreement whereby the Joint Venture would agree to assign its interest in a certain specific leasehold or a working interest owned by it to other parties, while retaining some part of its original interest (such as an overriding royalty interest, oil and/or gas payment, offset acreage, or other type of interest), subject to the drilling of one or more specified Well or other performance by the other parties as a condition of the assignment.

"GROSS ASSET VALUE" shall mean, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by a Venturer to the Venture shall be the gross fair market value of such asset, as determined by the contributing Venturer and the Venture;

(b) The Gross Asset Value of any Venture asset distributed to any Venturer shall be the gross fair market value of such asset on the date of distribution; and

(c) The Gross Asset Values of Venture assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code section 734(b) or Code section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Treas. Reg. section 1.704-1(b)(2)(iv)(m) and Section 8.4.3(h); provided, however, that Gross Asset Values shall not be adjusted pursuant to this Subsection (d) to the extent the Managing Venturer determines that an adjustment pursuant to Subsection (b) is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this Subsection (d).

(d) If the Gross Asset Value of an asset has been determined or adjusted pursuant to Subsection (a) or (c), such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

"HOLDER OF RECORD" means the person in whose name any Interest is then registered on the books and records of the Joint Venture pursuant to Section 2.5 hereof.

"INITIAL JOINT VENTURE CAPITAL" means the total capital contribution to the Joint Venture actually paid by the Managing Venturer and Venturers as represented by Interests but excluding Additional Assessments.

"INITIAL OPERATIONS" means any Joint Venture activity commenced in connection with the acquisition of the Venture's interest in the Lease and the drilling and Completion of the Prospect Well and the production of oil and/or gas therefrom, if any. The term "INITIAL OPERATIONS", however, does not include deepening, plugging back, side tracking, or any activities to complete the well in more than one zone, the installation of any pumping equipment all of which are covered by "Special Assessments".

"LEASE" means the oil, gas or mineral lease more specifically referred to in the Memorandum.

"LIQUIDATOR" means the Liquidating Trustee(s) designated in Section 9.3 hereof to handle the liquidation of the Joint Venture.

"MANAGING VENTURER" means the person or entity appointed to act in the capacity of the managing joint venturer of the Joint Venture. The initial Managing Venturer shall be Alfaro.

"MEMORANDUM" means the Confidential Information Memorandum, dated November 1, 2010, to which a copy of this Agreement is annexed.

"NET CASH FLOW" means monies available from the operation of the Joint Venture without deduction for depreciation but after deducting monies used to pay or establish a reserve for all other expenses, debt payments, improvements and repairs related to the Operation and administration of the Joint Venture all as determined by the Managing Venturer.

"NET PROCEEDS" means the amount realized by the Joint Venture on the disposition of a Joint Venture property, less all fees, costs or expenses paid or to be paid with respect thereto and the amount of indebtedness (if any) of the Joint Venture paid or to be paid from such monies.

"NON-PARTICIPATING VENTURER" means any Venturer who fails to contribute Completion Assessments, Special Assessments, or Additional Assessments.

"NONRECOURSE DEDUCTIONS" shall have the meaning set forth in Treas. Reg. section 1.704-2(b)(1).

"NONRECOURSE LIABILITY" shall have the meaning set forth in Treas. Reg. section 1.704-2(b)(3).

"OPERATIONS" shall mean any Joint Venture activity related to (i) acquiring the Prospect sites; (ii) Completing, Recompleting, equipping, reworking, deepening, capping or plugging the Prospect Well; (iii) installing pumping, production, processing, gathering and/or transporting facilities to produce, process, gather, and/or transport any oil or gas produced from the Prospect Well; (iv) conducting any secondary recovery operation on or with respect to the Prospect; or (v) conducting any activity incident to the foregoing as may be deemed necessary by the Venturers in furtherance of a Joint Venture purpose.

"PARTICIPATING VENTURER" means any Venturer, including the Managing Venturer, electing pursuant to the provisions of Sections 2.09 or 2.10 to contribute Special Assessments or Additional Assessments with respect to any particular action covered by Special Assessments or a Subsequent Operation, and/or any additional Venturers admitted to the Joint Venture to contribute Additional Assessments with respect to any particular Subsequent Operation on behalf of a Non-Participating Venturer.

"PARTNER NONRECOURSE DEBT MINIMUM GAIN" shall mean an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Treas. Reg. section 1.704-2(i).

"PARTNER NONRECOURSE DEBT" shall have the meaning set forth in Treas. Reg. section 1.704-2(b)(4).

"PARTNER NONRECOURSE DEDUCTIONS" shall have the meaning set forth in Treas. Reg. sections 1.704-2(i)(1) and 1.704-2(i)(2).

"PARTNERSHIP MINIMUM GAIN" shall have the meaning set forth in Treas. Reg. sections 1.704-2(b)(2) and 1.704-2(d).

"PROFITS" and "LOSSES" means, for each fiscal year or other period, an amount equal to the Venture's taxable net income or loss for such year or period, determined in accordance with Code section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(a) Such Profits and Losses will be computed as if items of tax-exempt income and nondeductible, noncapital expenditures (under Code sections 705(a)(1)(B) and 705(a)(2)(B)) were included in the computation of taxable income or loss;

(b) Any expenditures of the Venture described in Code section 705(a)(2)(B) or treated as Code section 705(a)(2)(B) expenditures pursuant to Treasury Regulation section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses, shall be subtracted from such taxable income or loss;

(c) In the event the Gross Asset Value of any Venture asset is adjusted pursuant to Subsection (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses;

(d) Credits or debits to Capital Accounts due to a revaluation of Venture assets in accordance with Regulation section 1.704-1(b)(2)(iv)(f), or due to a distribution of noncash assets, will be taken into account as gain or loss from the disposition of such assets for purposes of computing Profits and Losses;

(e) To the extent an adjustment to the adjusted tax basis of any Venture property pursuant to Code section 734(b) is required, pursuant to Regulation section 1.704-(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Venturer's interest in the Venture, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the property) or loss (if the adjustment decreases such basis) from the disposition of such property and shall be taken into account for purposes of computing Profits or Losses. and

(f) in lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year, computed in accordance with the definition of "Depreciation"; and

(g) Notwithstanding anything in this definition of the terms "Profits" and "Losses" to the contrary, any items that are specially allocated pursuant to this Agreement shall not be taken into account in computing Profits or Losses.

"SUBSEQUENT OPERATIONS" means activities not part of Initial Operations that the Managing Venturer deems necessary to further develop the Prospect Well subsequent to the drilling or Completion of the Prospect Well.

"SUBSTITUTE VENTURER" means any person not previously a Venturer who purchases Interests from a Venturer in accordance with the terms of this Agreement. After admission, all Substitute Venturers shall have all of the rights of a Venturer.

"TEXAS CODE" means the Texas Business Organizations Code, as from time to time amended.

"TREAS. REG.," "TREASURY REGULATION" or "REGULATION" shall mean the income tax regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"TURNKEY CONTRACT" shall mean the agreement to be entered into by and between Alfaro, in its individual capacity, and the Venture providing for the obligation of the Managing Venturer to bear the costs of drilling, testing and completing the Prospect Well at a fixed or turnkey price.

"TURNKEY PRICE" shall mean the amount to be paid by the Venture to Alfaro, to perform the Turnkey contract (the "Turnkey Drilling Price).

"INTERESTS" means interests in the Joint Venture authorized in accordance with the provisions of Article II hereof and allocated to the Venturers as shown on the books and records of the Joint Venture on the date of the event for which such Interests are to be computed.

"VENTURE" or "JOINT VENTURE" means this Joint Venture formed under Texas law and governed by this Agreement and the Texas Business Organizations Code. The Joint Venture will not commence Initial Operations until the Venture has reached minimum capitalization.

"VENTURERS" means all persons or entities that are a party to this Agreement and participate in Interests and are accepted as Venturers pursuant to this Agreement. The term "VENTURER" refers to any Venturer or to the Managing Venturer of the Joint Venture, as the context requires. Venturers are considered general partners under the Texas Business Organizations Code.

"VOTE" refers to the right of the Venturers, subject to all limitations set forth in the Joint Venture Agreement, to decide any matter that may be submitted for decision by the Venturers in accordance with the express written terms of the Joint Venture Agreement or under provisions of the Texas Code. Each Venturer, including the Managing Venturer, shall be entitled to cast one vote for every Interest held of record by him (her) on the date when notice is given for a matter to be voted upon. Except as otherwise expressly provided in the Joint Venture Agreement, a Vote of the Venturers owning 51% of the Interests shall be sufficient to pass and approve any matter submitted to a Vote.

ARTICLE II

VENTURERS, CAPITALIZATION AND ASSESSMENTS

2.1: **Managing Venturer.** Alfaro shall be the initial Managing Venturer of the Joint Venture. The Joint Venture and all of its affairs, property, business, and Operations shall be managed and controlled by a majority of the Venturers. The Venturers expressly delegate management of the day-to-day Operations of the Joint Venture to the Managing Venturer. It is agreed by the Venturers that the officers of the Managing Member shall also be officers of the Joint Venture.

2.2: **Venturers.** The Venturers of the Joint Venture shall be those persons participating in the Joint Venture as hereinafter authorized and provided, and defined as Venturers herein.

2.3: **Participating in Interests by Managing Venturer.** The Managing Venturer may:

(a) Acquire Interests pursuant to Section 2.4 hereof; or

(b) Purchase Interests of selling Venturers pursuant to Article VI hereof.

2.4: **Authorized Interests.** The interests of the Venturers in the Joint Venture shall be represented by Interests, and there are hereby authorized a total of up to 75 Interests and such additional Interests as may in the discretion of the Managing Venturer be necessary to purchase Working Interests if available.

2.4.1: **Applications by Proposed Venturers.** During the Capitalization Period, the Managing Venturer shall have the right to admit to the Joint Venture as Venturers those persons who are acceptable to the Managing Venturer and who otherwise satisfy the requirements of this Agreement. The Managing Venturer may, in its sole discretion, decline to admit any person or persons as a Venturer for any reason whatsoever. All applications that are rejected shall be returned to the person submitting such funds together with all funds tendered, without interest. Persons whose applications

are accepted by the Managing Venturer will be admitted as Venturers in the order that their applications are accepted and payment is received by the Managing Venturer until the initial capitalization is complete. Each Venturer, upon signing this Agreement, hereby Votes to admit all initial Venturers whose applications have been so accepted. When the Joint Venture begins Initial Operations, interest earned on application funds will be allocated in accordance with Article VIII hereof.

2.4.2: **Time of Admission.** A person shall be deemed to have been admitted as a Venturer:

(a) On the date this Agreement is fully executed by the Managing Venturer and all Venturers; or

(b) If applicable, on the first day of the calendar month after which a Venturer is accepted in accordance with Article VI herein.

2.4.3: **Contribution Per Interest.** The amount contributed for each Interest shall be $99,888. The amount so contributed by each Venturer shall be payable entirely in cash.

2.4.4: **Execution by Venturers.** By executing the Subscription Agreement attached to the Memorandum, each Venturer agrees to contribute to the capital of the Joint Venture the amount shown in his or her Subscription Agreement.

2.4.5: **Minimum Venturers' Initial Capital.** Applications to participate in Interests will be accepted by the Managing Venturer, in its sole discretion, during the Capitalization Period until applications for the aggregate Venturers' Initial Interest Contributions of $99,888.00 exclusive of the Managing Venturer's capital contribution, have been received and accepted. When a capitalization amount representing payment for one Interest ("Minimum Capitalization") has been received and accepted, the Venture may begin utilizing the capital of the Venture for Venture purposes. In the event applications for the Minimum Capital have not been received and accepted prior to the close of the Capitalization Period, all funds received by the Managing Venturer will be returned in full, without interest.

2.4.6: **Contributions to Capital by Managing Venturer.** Upon the admission of all Venturers, the Managing Venturer shall contribute to the Venture's capital an amount equal to 1% of the aggregate Venturers' Initial Capital in cash, property or services to the Venture.

2.5: **Registration.** Upon the admission of a person as a Venturer, such person shall be registered on the records of the Joint Venture as a Venturer and a Holder of Record, together with his or her address and the Interest(s) representing his or her aggregate contribution to Joint Venture capital. Upon the assignment of a Interest pursuant to the terms of Article VI hereof, the assignee of such Interest shall be registered on the records of the Joint Venture as a Holder of Record, together with his or her address and the Interest(s) representing his or her or his or her transferor's aggregate contribution to Joint Venture capital.

2.6: **Rights of Holders of Record.** A Holder of Record shall be entitled to all distributions and all allocations of Net Cash Flow, Net Proceeds, Amount Realized and Federal Income Tax Items with respect to Interest(s) registered in his or her name in the manner specified in Section 8.6 until his or her rights in such Interest(s) have been transferred and the Managing Venturer has been notified as required herein. The payment to the Holder of Record of any allocation or distribution with respect to such Interest(s) shall be sufficient to discharge the Joint Venture's obligation in respect thereto.

2.7: **Initial Capital Contributions.** The Joint Venture shall have as its initial capitalization an amount equal to the Venturers' initial capital plus the Managing Venturer's initial capital contribution, plus interest earned on funds pending completion of the initial capitalization. Failure by a Venturer to pay all of his or her agreed participation amount as reflected in the Subscription Agreement shall result in the forfeiture of such Venturer's interest in the Venture, without refund of amounts previously paid.

2.8: **Special Assessments.**

2.8.1: **Special Assessment by Joint Venture.** Special Assessments may be requested by the Venture

in the event the Venture votes to:

(i) Deepen a Wellbore;

(ii) Sidetrack a Wellbore if conditions or situations are encountered which render further drilling impractical or permits Operator to abandon the well;

(iii) Plug back a Wellbore and attempt completion in a different zone;

(iv) Conduct any activity for the purpose of enhancing production;

(v) Install tubing with increased production capacity;

(vi) Install pumping equipment;

(vii) Install pipelines;

(viii) Install any type of gas treatment facilities or production facilities; or

(ix) Complete any zones in addition to the first completion.

2.8.2: **Time of Payment.** The request for Special Assessments shall be in writing and shall set forth the particulars with respect to the estimated costs thereof, and the Venturers will have seven (7) business days (48 hours if the rig is on location) from the date of delivery of a notice by telegram or overnight delivery to make the requested additional contribution.

2.8.3 **Failure to Contribute All Special Assessments.** A Venturer shall initially have no obligation to pay any of the requested Special Assessments. If a Venturer elects not to pay any Special Assessment, or if a Venturer agrees to pay any portion of a Special Assessment with respect to any particular matter covered by Special Assessments as provided above and fails to contribute his or her entire proportionate share of all Special Assessments called for by the Joint Venture with respect to such matters, within the time specified in any request there for, such Venturer shall thereby be deemed to have abandoned all of his or her interest and rights relating to the Venture.

2.8.4 **Contribution by Managing Venturer.** The Managing Venturer shall have the right to pay the Special Assessment of any Non-Consenting Venturer and succeed to all rights of, including the Interest(s) purchased by, the Non-Participating Venturer.

2.8.5 **Contribution by Other Venturers.** If the Managing Venturer declines or is unable to pay all or any part of the Special Assessment of a Non-Consenting Venturer, the Venturers who have contributed their Special Assessment may contribute the Special Assessment of such Non-Consenting Venturer pro rata or in such other proportion as may mutually be agreed upon by the Venturers participating in the payment of the Special Assessment of such Non-Consenting Venturer. The Venturers that pay all or a part of such Special Assessment shall succeed to all rights of the Non-Consenting Venturer in such Interests in the proportion in which they have paid the Special Assessment of such Non-Consenting Venturer.

2.8.6 **Sale of Abandoned Interests.** If all Special Assessments are not paid by the Managing Venturer or the Venturers, the Venturers shall be conclusively deemed to have consented to the sale by the Joint Venture of any abandoned Interest(s) or part thereof to, and the admission of, persons as Venturers as may be necessary to provide the capital required by the Joint Venture to fund the activity for which the Special Assessment was called.

2.8.7 **Other Sources of Funds.** The Managing Venturer shall have the right but not the obligation to secure the necessary funds from other sources including loans (subject to approval by a Vote of the Venturers), and if such funds are not obtainable, the Joint Venture may abandon the Initial Operations to which such Special Assessment relates.

2.9: **Additional Assessments.** The Joint Venture may request Additional Assessments if it determines that Subsequent Operations are desirable in order to more fully develop the Prospect. A Venturer Votes for the Subsequent Operation by contributing his or her assessment. The Managing Venturer's participation in Additional Assessments will be 1% of total Additional Assessments received. A Venturer shall initially have no obligation to pay any of the requested Additional Assessments. If a Venturer agrees to pay any portion of an Additional Assessment with respect to any particular Subsequent Operation and fails to contribute his or her entire proportionate share of all Additional Assessments called for by the Joint Venture with respect to such Subsequent Operation, within the time specified in any request therefore, such Venturer shall thereby be deemed a Non-Participating Venturer with respect to such Subsequent Operation only.

2.9.1: **Notice of Assessment.** As the Joint Venture recommends each Subsequent Operation, the Managing Venturer will give notice, in writing, to each Venturer stating the nature and purpose of the proposed expenditure, and will attach an estimate of the complete cost of such Subsequent Operation and such Venturer's proportionate share of the total Additional Assessment. The Managing Venturer may request payment in full of such amount or payment of any portion thereof. The estimate shall not constitute a limit as to the total Additional Assessments with respect to such Subsequent Operation.

2.9.2: **Election to Participate by Venturers.** Venturers may elect to be Participating Venturers with respect to any particular Subsequent Operation. This election can be made by either of the following means;

(a) mailing a check in payment of the Additional Assessment to the Managing Venturer by Interested States certified mail, return receipt requested, postmarked no later than fifteen (15) business days (48 hours if the rig is on location) after the date on which notice of the Additional Assessment was sent by the Managing Venturer (provided (i) that the envelope in which such check is mailed bears the correct address of the Managing Venturer as provided in this Agreement, and (ii) that such envelope bears the proper amount of postage to effect timely delivery); or

(b) actual delivery of a check in payment of the Additional Assessment to the office of the Managing Venturer no later than 4:00 p.m. on the twentieth (20) day after the date on which notice of the Additional Assessment was sent by the Managing Venturer.

It is further provided that the check in payment of the Additional Assessment must "clear" the bank on which it is drawn on the first attempt to present such check for payment. Failure of the check to 'clear" or "be honored by" the bank on which it is drawn will result in the maker of such check being a Non-Participating Venturer.

2.9.3: **Funds to Replace Those of Non-Participating Venturers.** If less than 100% of the Venturers pay the Additional Assessments for Subsequent Operations, the Managing Venturer shall have the option, in the exercise of its sole and absolute discretion to:

(a) Pay the Non-Participating Venturer(s)' unpaid portion of such Additional Assessment and be entitled to receive the Non-Participating Venturer(s)' allocable shares of Profits and Losses attributable to the Venture pursuant to Section 8.3.2 below;

(b) Allow any or all Participating Venturers to pay the Non-Participating Venturer(s)' unpaid portion of such Additional Assessment and therefore be entitled to receive the Non-Participating Venturer(s)' allocable shares of Profits and Losses attributable to the Non-Participating Venturer(s) interest in the Venture pursuant to Section 8.3.2 below;

(c) Offer Interests of the Subsequent Operation to persons (other than the Venturers), who shall upon payment of such assessment, be deemed to be additional Venturers and Participating Venturers with respect to the Non-Participating Venturer(s) interest in the Venture;

(d) Abandon the Subsequent Operation for which such Additional Assessment was requested, refund the Additional Assessment proceeds previously paid by the Venturers and abandon the Prospect Well.

2.10: **Return of Capital.** No Venturer has the right to require the return of all or any part of his or her capital

contribution(s) or a distribution of any property from the Joint Venture prior to its termination and dissolution as provided herein.

2.11: **Interest on Capital.** No interest shall be payable on any capital contributions made to the Joint Venture or on any Capital Account.

2.12: **Liability for Continuing Obligations.** As joint venturers, each Venturer has all of the rights, obligations, and liabilities under the Texas Code, including joint and several liability for all of the debts, obligations, acts, omissions, risks and liabilities of the Joint Venture. Certain assessments, subject to appropriate Vote, may be made to meet Joint Venture obligations, as herein described. Upon the death, disability or other change in circumstances of a Venturer prior to completion of such Venturer's obligations to complete certain payments pursuant to this Section, such Venturer's estate, legal representative or successor shall have the status of the Venturer and of such Venturer's rights and responsibilities.

ARTICLE III

MANAGING VENTURER

3.1: **Rights and Duties.** The Joint Venture and all of its affairs, property, business, and Operations shall be managed and controlled collectively by the Venturers. The Venturers expressly delegate management of the day-to-day Operations of the Joint Venture to the Managing Venturer.

3.2: **Reimbursement and Compensation to the Managing Venturer.** The Managing Venturer shall receive as full and complete compensation for its services as managing venturer the following amounts:

3.2.1: **Monthly Reimbursement to Managing Venturer.** The Managing Venturer shall receive, on a monthly basis, a reimbursement from the Joint Venture for its General and Administrative Expenses (as defined in the Memorandum) allocable to the Joint Venture, in the amount of $500.00 per month (plus a fee taken from each interest's net revenue interest in the amount of 0.0125% of net revenue interest), per well, in which the Joint Venture owns an interest.

3.2.2: **Management Fees.** In consideration of the supervision and management of the affairs of the Joint Venture during the drilling and, if advisable, the Completion period of Initial Operations, the Turnkey Contracts (all as defined in the Memorandum) may include a management fee that is payable by the Venture to the Managing Venturer.

3.2.3: **Participation in Revenues.** The Managing Venturer will be entitled to receive the allocations of Profits and Losses and distributions as set forth in Article VIII.

3.3: **Interest of the Managing Venturer in Certain Transactions.** The Managing Venturer shall not be deemed to have received commissions, fees or other compensation paid to any firm, proprietorship, partnership or corporation that is an Affiliate, or in which the Managing Venturer, or any partner, officer, director or employee thereof or any member of any such person's respective immediate family, owns a beneficial interest. Nothing contained in this Agreement shall be deemed to:

(a) Restrict the right of the Managing Venturer or any Affiliate to be reimbursed for sums actually expended in conducting the business of the Joint Venture;

(b) Restrict the right of the Managing Venturer or any Affiliate to receive the income or distributions to which they would otherwise be entitled as the Managing Venturer or a Venturer under the terms of this Agreement; or

(c) Prevent or restrict the Managing Venturer, or any Affiliate from obtaining or sharing in all or any part of any commissions or other sums payable in connection with any property purchased or sold by the Joint Venture.

ARTICLE IV

MANAGEMENT AND OPERATION

4.1: Management. The Joint Venture and all of its affairs, property, business, and Operations shall be managed and controlled collectively by all the Venturers; provided, however, that the Venturers expressly delegate management of the day-to-day Operations of the Joint Venture to the Managing Venturer. With respect to the purposes for which this Joint Venture is organized and without limiting the generality of its powers, and the definition of Operations hereunder, the Managing Venturer is hereby expressly vested with the full and plenary power to:

(a) Retain or act as operator(s) and to cause such operator(s) to drill, complete, equip, test, rework, operate, and if necessary, plug and abandon the Prospect Well of the Joint Venture;

(b) Conduct seismographic surveys and other geological operations and services;

(c) Execute and deliver any and all contracts and agreements, including purchase, joint venture, Farmout and operating agreements and turnkey contracts, binding the Joint Venture in furtherance of the business purposes of the Joint Venture;

(d) Execute and deliver, and receive or pay the consideration for, all deeds and assignments of properties or other interests transferred or acquired by the Joint Venture;

(e) Subject to an affirmative Vote by the Venturers, make all elections or decisions, and bind the Joint Venture thereby, that may be necessary or permissible in connection with any purchase, joint venture or Farmout agreement or other type of contract under which an interest in properties is to be acquired, operated, sold or assigned (subject to Venturers' approval) by the Joint Venture;

(f) Maintain leases in force and effect (including paying delay rentals);

(g) Execute and deliver all checks, drafts, or other orders for payment of funds belonging to the Joint Venture;

(h) Execute and deliver division orders, transfer orders, pooling orders, and assignments;

(i) Enter into and bind the Joint Venture in the execution of dry hole letters, bottom hole and acreage contribution agreements, and Farmouts, whether such agreements cover the assignment or transfer of properties or funds to or from the Joint Venture;

(j) Execute operating agreements whether or not the Joint Venture or the Managing Venturer may be designated as operator there under;

(k) Execute powers of attorney, consents, waivers and other documents that may be necessary before any court, administrative board or agency of any governmental authority, affecting the properties owned by the Joint Venture;

(l) Take and hold title to property, execute evidences of indebtedness or other obligations or instruments in its name or the name of a nominee all on behalf of the Joint Venture and with or without disclosing the true owner or party in interest thereto; provided, however, the Managing Venturer will use its best efforts to have title transferred to the Venture upon Completion of the Prospect Well. The Joint Venture shall be solely entitled to all rights, titles and interests temporarily held by the Managing Venturer or nominee on behalf of the Joint Venture and solely liable for all expenses, costs and other obligations incurred in connection therewith. All such instruments so executed may be transferred into the name of the Joint Venture by assignment or otherwise or held in the name of the Managing Venturer or nominee as the Managing Venturer may determine; provided, always, that the Managing Venturer shall keep as part of the books and records of the

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Joint Venture and properly account on its books for each such contract, deed, note or other instrument indicating the nominal parties thereto, date thereof and general description of such document;

(m) In general, execute all instruments of any kind or character that may be necessary or appropriate in connection with the business of the Joint Venture. In addition, while the Venture has, based on currently available geological and geophysical information, selected an oil and gas leasehold interest for exploration and development, prior to the commencement of drilling activities, the Managing Venturer may review additional geological and geophysical data from other potential acreage and determine, subject to a contrary Vote, to explore and develop such other acreage in substitution for the drilling site described in supporting documents to the Memorandum. In the event that the Managing Venturer selects an alternative drilling site, Venturers will be appropriately notified, and the site will be located within the acreage designated on the geological map appended to the Memorandum, and the Managing Venturer believes that the geological considerations will be substantially the same (or more favorable) than the drilling site previously selected;

(n) Investigate, evaluate and subject to an affirmative Vote by the Venturers, acquire investment opportunities for the Joint Venture, to acquire on behalf of the Joint Venture oil, gas and mineral properties or other interests upon such terms as it deems advisable; and

(o) Utilize Venture funds from all sources to undertake any Operations necessary to protect, save, restore or preserve the Prospect Well in the event of a natural occurrence or other emergency that requires such Operations to be performed before such time that a Vote of the Venturers may be taken and when the delay of such Operation may cause: (i) a significant increase in the cost of such Operations, (ii) Completion, Drilling or other future Operations to be unfeasible, (iii) the loss of the Venture's interest in the Prospect Well or (iv) the Venture to be subject to liability to third parties.

4.2: **Third Parties.** No person dealing with the Managing Venturer shall be required to determine its authority to make any undertaking or to execute any instrument on behalf of the Joint Venture, nor to determine any fact or circumstance bearing upon the existence of such authority, and all such instruments or undertakings shall contain such provisions as the Managing Venturer deems expedient.

4.3: **Obligations of the Managing Venturer as Joint Venture Manager.** The Managing Venturer shall manage the Joint Venture affairs in a prudent and businesslike manner, and in accordance with good practices in the industry. The Managing Venturer at all times shall act in the best interests of the Joint Venture in fulfillment of the purposes herein expressed and shall in all instances notify the Venturers of any transaction entered into between the Joint Venture and Alfaro or any Affiliate.

4.4: **Insurance Coverage.** In order to protect Joint Venture assets, the Managing Venturer may procure or cause to be procured and maintain or cause to be maintained in force, or contract with others to obtain and maintain in force, such insurance as in its best judgment it deems prudent to serve as protection against liability for loss and damage that may be occasioned by the activities of the Joint Venture. The cost of obtaining such insurance shall be charged to and borne by the Joint Venture. The Managing Venturer shall not be liable to any Venturer for any loss that may be sustained by the Joint Venture because the Managing Venturer did not acquire or cause to be acquired any particular type of insurance.

4.5: **Expenses.** The Managing Venturer may charge to the Joint Venture and be reimbursed or pay out of Joint Venture funds, as and when available, all reasonable expenses incurred by the Managing Venturer in the operation of the Joint Venture including but not limited to expenses, charges and fees relating to:

(a) the acquisition, preservation or protection of the Joint Venture's property, including maintaining insurance thereon and protection of title thereto,

(b) the maintenance, operation or reworking of any Joint Venture property,

(c) travel expenses, professional fees, attorneys' fees and court costs,

(d) taxes on real or personal property owned by the Joint Venture,

(e) interest on any loan to the Joint Venture,

(f) normal closing costs (in the event of a sale or transfer of all or any part of the Joint Venture's property),

(g) expenses incurred in connection with the negotiation for, or consummation of financing or renewing, rearranging or refinancing any indebtedness on the Joint Venture's property,

(h) Operating Expenses (as defined in the Memorandum), and

(i) General and Administrative Expenses (as defined in the Memorandum).

4.6: **Interpretation.** If any provision of this Agreement is unclear or ambiguous in the opinion of the Managing Venturer, the Managing Venturer, in its sole and absolute discretion, shall have the right and power to interpret such provision in accordance with the purposes, and in the best interests of the Joint Venture and all the Venturers; provided, that the Managing Venturer may not interpret the provisions of Section 3.2 and Articles VIII and IX hereof so as to increase its compensation as set forth herein.

4.7: **Reliance Upon Experts.** The Managing Venturer may employ or retain such counsel, accountants, engineers, geologists, landmen, appraisers or other experts or advisors as it may reasonably deem appropriate for the purpose of discharging its duties hereunder, and shall be entitled to pay the fees of any such persons from the funds of the Joint Venture. The Managing Venturer may act and shall be protected in acting in good faith on the opinion or advice of, or information obtained from any such counsel, accountant, engineer, geologist, appraiser or other expert or advisor, whether retained or employed by the Joint Venture, the Managing Venturer, or otherwise, in relation to any matter connected with the administration or operation of the business and affairs of the Joint Venture.

4.8: **Limitations on Venturers' Acts.**

4.8.1: **Prohibited Acts.** The Venturers, including the Managing Venturer, are expressly prohibited from entering into any contract or other transaction that would:

(a) Result in possession of Joint Venture property or assignment of any rights in specific Joint Venture property, other than for a Joint Venture purpose; or

(b) Authorize the lending of Joint Venture funds to any partnership or joint venture in which the Managing Venturer or an Affiliate is a general partner or managing venturer.

4.8.2: **Acts Requiring Unanimous Approval.** Except by the unanimous Vote of the Partners, including the Managing Venturer, no Venturer has authority to:

(a) Assign the Joint Venture property in trust for creditors or on the assignee's promise to pay the debts of the Joint Venture;

(b) Dispose of the good will of the business;

(c) Do any other act, which would make it impossible to carry on the ordinary business of the Joint Venture;

(d) Confess a judgment;

(e) Contravene this Agreement; or

(f) Submit a Joint Venture claim or liability to arbitration or reference.

4.9: **Other Permissible Activities.** No Venturer is prevented hereby from engaging in other activities for profit, whether in the oil and gas business or otherwise. The Venturers, including the Managing Venturer and its Affiliates, have and in the future may engage in other businesses including the organization and management of additional partnerships, limited partnerships, joint ventures, or corporations for the exploration of oil and gas and must necessarily divide their time between the business of the Joint Venture and their other activities. The Venturers, including the Managing Venturer and its Affiliates are hereby authorized, during the life of the Joint Venture, to acquire oil or gas interests or properties and not offer the same to the Joint Venture. Further, nothing herein shall prevent another partnership organized by the Managing Venturer or any Affiliate from acquiring a prospect that is in the same geographical reservoir as any Prospect owned by this Joint Venture.

4.10: **Purchase of Oil and Gas Equipment from the Managing Venturer and Affiliates.** The Joint Venture may purchase or acquire equipment necessary in the drilling, completion, reworking and operation of Joint Venture Well from the Managing Venturer, or an Affiliate, and such equipment may be new or used.

4.11: **Meetings.** The Venturers may develop such rules and procedures they deem necessary, desirable or convenient to provide for meetings of Venturers to Vote, or to obtain the written Vote or consent of Venturers as to matters on which a Vote of the Venturers is sought. Such rules and procedures shall be in writing and shall provide for call and notice of meeting and quorum requirements (which shall be based on interests in the Joint Venture and shall require that Holders of Record of not less than fifty percent (50%) in interests (not in numbers) in the Joint Venture be present in person or by proxy). A copy of such rules and procedures shall be available for inspection by any Venturer at the principal place of business of the Joint Venture.

4.12: **"Tax Matters Partner."** The Managing Venturer shall be the "Tax Matters Partner" for purposes of partnership and Joint Venture proceedings as described in Subtitle F, Chapter 63, Subchapter C, of the Code. The Venturers agree to cooperate with the Managing Venturer and each other Venturer and to do or refrain from doing any and all things reasonably required to conduct such proceedings. The Venture shall reimburse the Tax Matters Partner for all costs and expenses incurred by it in performing its duties as such (including legal and accounting fees and expenses). Nothing herein shall be construed to restrict the Venture or the Managing Venturer from engaging an accounting firm or a law firm to assist the Tax Matters Partner in discharging its duties hereunder.

ARTICLE V

RIGHTS AND OBLIGATIONS OF VENTURERS; AMENDMENTS

5.1: **Venturers' Delegation of Powers.** At no time during the term of the Joint Venture shall a Venturer, other than the Managing Venturer, have the power to act on behalf of, sign for or bind the Joint Venture with respect to Operations of the Joint Venture.

5.1.1: **Indemnity by Venturer.** Each Venturer shall indemnify, defend, and hold harmless the Joint Venture and all other Venturers (including the Managing Venturer), their officers, directors, agents and attorneys, from and against any loss, claim, cause of action, item of damage, expense, and cost (including attorneys' fees and court costs), but only to the extent of his or her total capital contributions to the Venture, arising directly or indirectly out of:

(a) Any act of such Venturer that is inconsistent with the rights and authority delegated to the Managing Venturer; and

(b) Any misrepresentation made by a Venturer in the Subscription Agreement or elsewhere, any breach by a Venturer of any of his or her warranties, and any failure by him or her to fulfill any of his or her covenants or agreements set forth herein or elsewhere.

5.1.2: **Indemnity by Managing Venturer.** The Managing Venturer shall indemnify, defend, and hold harmless the Joint Venture and all Venturers, their officers, directors, agents and attorneys, from and against any loss, claim, cause of action, item of damage, expense, and cost (including attorneys' fees and court costs) arising directly or indirectly out of:

(a) Any willful or grossly negligent act of the Managing Venturer that is inconsistent with the rights and authority delegated to the Managing Venturer; and

(b) Any willful or grossly negligent misrepresentation made by the Managing Venturer, and any willful or grossly negligent failure by it to fulfill any of its covenants or agreements set forth herein or elsewhere.

5.1.3: Breach. Any action of a Venturer that is inconsistent with Section 5.1 hereof, shall:

(a) Constitute a breach of this Agreement on the part of the Venturer so acting;

(b) Render such Venturer subject to claims for damages asserted by the Joint Venture or the Venturers, as the case may be, to all rights of indemnification in favor of the Joint Venture and all of the Venturers as set forth in this Agreement; and

(c) Constitute grounds for the expulsion of such Venturer from the Joint Venture, in the discretion of the Managing Venturer or based upon a Vote.

5.2: **Rights of Venturers.** A Venturer shall have all the rights and obligations granted to a general partner and joint venturer under the Texas Code, subject to the terms and provisions in this Agreement, except those matters set forth in Section 152.002 of the Texas Code.

5.3: **Proposal of Amendments.** Amendments to this Agreement may be proposed by either the Managing Venturer or, subject to Section 4.11 hereof, by Venturers owning not less than ten percent (10%) of all Interests outstanding. Proposed amendments, subject to the conditions set forth in Section 5.5 hereof, may concern any Article of this Agreement.

5.4: **Procedure to be Followed.** Following any proposal of an amendment pursuant to Section 5.3 hereof, the Managing Venturer shall, within fifteen (15) days after receipt thereof, submit to all Venturers a verbatim statement of the proposed amendment. All proposed amendments, whether proposed by the Managing Venturer or by Venturers owning not less than ten percent (10%) of the Interests, shall be submitted to the Venturers for a Vote, within 30 days after the date of mailing of such notice. For purposes of obtaining a written Vote, the Managing Venturer may require response within a specified time. Any Venturer failing to notify the Managing Venturer of his or her support for or opposition to the amendment within the specified time shall be conclusively deemed to have opposed the amendment.

5.5: **Amendments Not Allowable.** No amendment shall change the contributions of the Venturers required herein or retroactively adversely affect the rights and interests of any Venturer, including the Managing Venturer, including any change in the allocations set forth in Articles VIII and IX hereof without affirmative written consent.

5.6: **Meetings of Venturers.** Subject to the requirements of Section 4.11 hereof, meetings of the Venturers may be called by the Managing Venturer and shall be called by it upon the written request of Venturers holding ten percent (10%) or more of the Interests. The call will state the nature of the business to be transacted, and no other business will be considered. Venturers may Vote in person or by proxy at any such meeting.

5.7: **Removal of Managing Venturer.** Subject to the requirements of Section 4.11 hereof, a Vote of 51% in interest of the Venturers shall have the right to remove the Managing Venturer and substitute a new managing venturer to carry on the day-to-day Operations of the Joint Venture. The removal of the Managing Venturer shall not be retroactively effective.

5.8: **Rights of the Managing Venturer Upon Removal.** In the event the Managing Venturer is removed in accordance with Section 5.7 hereof, or the Managing Venturer withdraws or ceases to be a Venturer by operation of law, or otherwise, the removed Managing Venturer shall select an independent engineering firm to value the removed Managing Venturer's interest in the Joint Venture at its then present fair market value. In determining the fair market value of the Managing Venturer's interest, the independent engineer will take into account appropriate discount factors in

light of the risk of recovery of oil and gas reserves. The incoming managing venturer or the Joint Venture may purchase for cash all or a portion of the interest of the removed Managing Venturer for the value determined by the independent engineering appraisal. The interest of the removed Managing Venturer not purchased by the incoming Managing Venturer or the Joint Venture shall be assigned to the removed Managing Venturer by the Joint Venture and the removed Managing Venturer shall thereafter have no further interest in the Joint Venture, except as to the interest so assigned to it. Further, upon removal or withdrawal, the Managing Venturer shall be released and indemnified from all liabilities arising after the Managing Venturer ceases to be Managing Venturer.

ARTICLE VI

TRANSFER AND ASSIGNMENT OF INTERESTS

6.1: **By Managing Venturer.** The Managing Venturer may not, without the consent of 51% in interest of the Venturers, sell, transfer or assign its Managing Venturer's interest in the Joint Venture; provided, however, that the Managing Venturer and any Affiliate, without the consent of the Venturers, may at any time sell, transfer or assign any Interest(s) then held by them as a Venturer, subject to this Article VI. Purchasers of Interests from the Managing Venturer or such Affiliates shall be admitted as Substitute Venturers.

6.2: **By Venturers.** No Venturer (except a Venturer who sells his or her Interests to the Managing Venturer) may sell or transfer all or any part of his or her Interest(s) until he or she shall first comply with the provisions of this Section; provided, however, that any sale, assignment or other transfer to Venturer's parents, spouse, siblings or children (either natural or adoptive) or to any trust of which the primary beneficiaries are the Venturer, his or her parents, spouse, siblings or children shall not be subject to the restrictions on transfer set forth in this Section 6.2.

6.2.1: **Notice Required.** Such selling Venturer shall deliver to the Managing Venturer a written notice (the "Notice") in which he or she shall:

(a) state his or her intention to sell or dispose of his or her Interest(s) or a part thereof;

(b) state the price and terms of the best bona fide offer he or she has received for the purchase of such Interest(s) and the name and address of the offeror(s) making such offer; and

(c) offer to sell such Interest(s) to the Managing Venturer on the same terms and conditions at any time within twenty (20) days after the delivery of such written notice.

6.2.2: **Option**. At any time during the twenty (20) day period after the delivery of the Notice, the Managing Venturer shall have the right and option to purchase the Interest(s) so offered by the selling Venturer, and if the Managing Venturer shall decline such purchase, then the remaining Venturers shall have such option for an additional twenty (20) days, on the terms and for the price set forth in the Notice. If the option is not exercised by the Managing Venturer or the remaining Venturers, the selling Venturer may within thirty (30) days, subject to the other provisions of this Agreement, sell the Interest(s) designated in the Notice but only in accordance with the terms stated in the Notice. If the sale is not completed within such thirty (30) day period, the Notice shall be deemed to have expired and a new Notice and option shall be required before any sale or disposition is made of the Interests of the selling Venturer. No sale pursuant to this section may occur unless:

(a) the purchaser of such Interest(s) is a qualified purchaser and is approved as such by a Vote of the Venturers and in accordance with the suitability standards originally applied by the Managing Venturer to initial Venturers;

(b) the sale, transfer, assignment, and conveyance is expressly made subject to the provisions of this Agreement;

(c) the purchaser assumes all of the obligations of the selling Venturer under this Agreement (including the execution of a power of attorney to the Managing Venturer); and

(d) the selling Venturer or purchaser delivers to the Managing Venturer the opinion referred to in Section 6.7.

6.2.3: **Assignment of Venturer's Interest.** Unless a Venturer is admitted as an additional Venturer, a conveyance by a Venturer of his or her interest in the Joint Venture does not of itself require winding up of the Joint Venture, nor, as against the other Venturers, entitle the assignee, during the continuance of the Joint Venture, to interfere in the management or administration of the Joint Venture business or affairs. Such Conveyance merely entitles the assignee to receive in accordance with his or her contract the profits to which the assigning Venturer would otherwise be entitled and, for any proper purpose, to require reasonable information or account of Joint Venture transactions and to make reasonable inspection of the Joint Venture books.

6.2.4: **Expenses.** The Joint Venture may charge and receive from the selling Venturer an amount not exceeding $1,000.00 to defray its costs and expenses, including attorney's fees, in effecting the transfer and registration on its books of such Interest(s) thus sold.

6.2.5: **Offer to Venturers.** In the event that a Venturer, other than the Managing Venturer or an Affiliate to the extent it holds Interest(s), desires to sell his or her Interest(s) and has not received an offer to purchase same from any third party, he or she shall give the Notice required under Section 6.2.1 hereof, and subject to all other applicable terms and provisions of this Article VI, all Venturers shall have an option to purchase the Interest(s) so offered. In the event that no Venturer purchases such Interest(s), the selling Venturer shall have sixty (60) days after giving the Notice provided in Section 6.2.1 in which to sell such Interest(s) to any qualified person upon whatever terms he or she may negotiate before having to re-offer such Interest(s) to the other Venturers.

6.2.6: **Exercise and Procedures.** All rights and options provided in this Article VI may be exercised by the Managing Venturer and Venturers entitled and electing to exercise such options in proportion to their interests in the Joint Venture or as they may mutually agree. The Venturers by Vote may promulgate such rules as they may deem appropriate and desirable to enforce the limitations on transfer of Interests as set forth in this Article VI, establishing such policies, methods and procedures for effecting and evidencing such transfers as are in accordance with the provisions hereof and as may seem necessary, reasonable or convenient.

6.3: **Notice of Assignment.** Notwithstanding anything in the joint venture or partnership laws of the State of Texas to the contrary, no transfer of any Interest(s), although otherwise valid under this Agreement and the Texas Code, shall be recognized by the Joint Venture until the transferor has given written notice thereof as provided herein and the transferee has become a Holder of Record.

6.4: **Bankruptcy, Death, Incapacity or Forfeiture.**

6.4.1: **Continuation Agreement; Waiver of Liquidation Rights**. Except for an event of termination described in Articles 1.6 and 9.1 hereof, upon the occurrence of any event that would otherwise give rise to the winding up of the Joint Venture, the Joint Venture shall be wound up but not terminated. Instead, in consideration of their mutual covenants, all of the Venturers specifically agree that in the event of any event that would otherwise give rise to the winding up of the Joint Venture, the Venturers, by executing this Agreement, hereby Vote in advance that the Joint Venture shall be continued; provided, however, that the Venturers by unanimous Vote may rescind such Vote for continuation within thirty (30) days after the event causing the winding up. Upon continuation, the business affairs of the Joint Venture shall continue and not be liquidated, and each Venturer hereby specifically waives his or her liquidation rights in such an event. Liquidation of the Joint Venture shall be caused or obtained only in the manner set forth in Section 9.1 hereof. The continued joint venture shall assume all liabilities of the dissolved Joint Venture.

6.4.2: **Status of Successor In Interest.** Except as otherwise provided in the Texas Code, no assignee, transferee or successor in interest of a Venturer shall be deemed a Substitute Venturer or entitled to exercise any rights, powers or benefits of a Venturer other than the right to distribution and allocation of Net Cash Flow, Net Proceeds, Amount Realized and Federal Income Tax Items unless such assignee, transferee or successor in interest has been approved and accepted by the Venturers in accordance with this Article VI. Such successor in interest may transfer the Interest(s) of such Venturer only pursuant to the provisions of this Article VI.

6.5 **Divorce.** Upon the divorce of any Venturer, all of the interest in the Joint Venture of such divorced Venturer shall be determined in accordance with the Texas Code.

6.6: **Consent of Venturers.** No assignee or transferee shall be deemed to be a Substitute Venturer or entitled to exercise or receive any rights, powers or benefits of a Venturer unless such assignee has been approved and accepted by the Venturers in accordance with Section 6.2.2(a), (b), (c) and (d).

6.7: **Opinion Letter.** Notwithstanding anything herein to the contrary, no Venturer may sell, transfer, assign, or gift any interest in the Joint Venture without first presenting to the Managing Venturer a written opinion of counsel (in form and substance acceptable to the Managing Venturer) to the effect that such sale, transfer, assignment or conveyance will not result in a termination of the Joint Venture within the meaning of Code section 708(b).

6.8: **Subdivided Interests Prohibited.** Notwithstanding anything herein to the contrary, no Venturer, other than the Managing Venturer, shall be permitted to further subdivide any portion of a Interest for the purpose of a sale, transfer, assignment, conveyance, gift, donation or bequest.

ARTICLE VII

ACCOUNTING, RECORDS AND REPORTS

7.1: **Books, Records and Reports.** The Joint Venture shall maintain at the principal office of the Joint Venture or at such other place as it may determine:

(a) the books and records of the Joint Venture; and

(b) an executed counterpart of this Agreement and all amendments thereto.

Such information, as is available pursuant to applicable Texas law, shall be open to reasonable inspection and examination by any of the Venturers, assignees, their agents, accountants, attorneys and other duly authorized representatives during regular business hours upon not less than 48 hours prior written request. The Managing Venturer may condition the disclosure of Venture books, records and reports upon a showing of a proper purpose and under such measures that the Managing Venturer reasonably believes are sufficient to maintain the confidential and proprietary nature of the information contained in such documents.

7.2: **Accounting Method.** The books and records of the Joint Venture shall be kept in accordance with the terms of this Agreement applied in a consistent manner and may be kept on the cash basis if such method of accounting is permissible and the Managing Venturer deems it in the best interest of the Venture. The accounting year of the Joint Venture shall be the calendar year.

7.3: **Financial Statements and Tax Returns.** At the expense of the Joint Venture, the Managing Venturer shall engage a certified public accountant to prepare the Joint Ventures' annual income tax return, the return required by Code section 6050K relating to sales and exchanges of interests in the Joint Venture, and annual financial statements, which shall include:

(a) a balance sheet as of the last day of the accounting year;

(b) a statement of income or loss for the full year;

(c) a statement of changes in financial position;

(d) a statement of cash flow and distributions for the full year;

(e) a detailed statement of distributions to and changes in the Capital Accounts of all Venturers; and

(f) a detailed statement of assessments and borrowings, if any.

Subject to a Vote to the contrary, such financial statements shall be unaudited. Within a reasonable time after the close of each accounting year, the Managing Venturer shall transmit to each person who was a Venturer (or assignee) during such accounting year, a copy of such financial statements and a report (which may be in the form of Schedule K-1 to IRS Form 1065) indicating such persons' respective share of distributions and allocations of Profits, Losses, and, Amounts Realized, tax preference items and investment credits, if any, for such year.

7.4: **Reports.** In addition to the financial information set forth in this Article VII, the Managing Venturer shall furnish to the Venturers annually the following reports dealing with Joint Venture operations:

7.4.1: **Prospect Status Reports.** The Managing Venturer shall furnish reports in the form of drilling summaries indicating the status of the Joint Venture well and a description of the Prospect Well and costs incurred on such Prospect Well to date.

7.4.2: **Related Party Transactions.** The Managing Venturer shall furnish a detailed statement of any transactions by the Joint Venture with the Managing Venturer or its Affiliates, and of fees, commissions, compensation and other benefits paid or accrued to the Managing Venturer or its Affiliates for the period completed.

7.5: **Banks.** All funds of the Joint Venture shall be deposited in a separate bank account or accounts in the name of the Joint Venture as may be determined from time to time by the Managing Venturer. Withdrawals from such account or accounts shall be made upon checks or other withdrawal orders executed by a duly authorized representative of the Managing Venturer.

7.6: All information relating to the Joint Venture and the Joint Venturers is intended by all Joint Venturers to be confidential and a trade secret of the Venture. Any disclosure of such information to anyone other than a Venturer or their duly designated representative, or the use of any information regarding the Venture, its business or its Venturers is prohibited; provided, however, that nothing herein shall prevent or restrict the disclosure of any such information for a proper Venture business purpose or as otherwise may be required by law. The Venture and the Venturers acknowledge that any breach of the confidentiality provision herein contained may not provide the non-breaching party with an adequate remedy at law and thus, the Venturers, Venture and the Managing Venture acknowledge and agree to injunctive relief with respect to any such breach

ARTICLE VIII

ALLOCATIONS

8.1 **Capital Accounts.**

8.1.1 **General.** A separate Capital Account shall be established and maintained for each Venturer on the books and records of the Venture. Capital Accounts shall be maintained in accordance with Regulation section 1.704-1(b) and any inconsistency between the provisions of this Article VIII and such Regulation shall be resolved in favor of the Regulation. In the event the Managing Venturer shall determine that it is necessary or prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities that are secured by contributed or distributed property or that are assumed by the Venture of the Venturers), are computed in order to comply with such Regulations, the Managing Venturer may make any such modification, provided that it is not reasonably expected to have a material effect on the amounts distributable to any Venturer upon the dissolution of the Venture.

8.1.2 **Restoration of Negative Capital Accounts.** No Venturer shall be obligated to the Venture or to any other Venturer to restore any negative balance in his Capital Account. If the Capital Account of any Venturer has a deficit balance (after giving effect to all contributions, distributions, and allocations for all taxable years, including the taxable year during which such liquidation occurs), such Venturer shall not be obligated to make any contribution to the capital of the Venture with respect to such deficit, and such deficit shall not be considered a debt owed to the Venture or to any other person for any purpose whatsoever.

8.2: **Allocation of Basis of Depletable Properties.**

8.2.1: **Initial Operations.** For purposes of depletion, the Joint Venture shall allocate to the Managing Venturer and to each Venturer on or before the date of acquisition of each oil and gas property acquired with respect to Initial Operations, a portion of the adjusted basis of such property. Such basis shall be allocated 1% to the Managing Venturer and 99% to the Venturers (other than to the Managing Venturer except to the extent that the Managing Venturer holds Interests) (and to each Venturer in the proportion that such Venturer's Interests bears to the total Interests of all Venturers).

8.2.2: **Allocations to Additional Venturers.** On the admission of additional Venturers to participate in a Subsequent Operation to be undertaken on a property the basis of which has previously been allocated pursuant to Subsections 8.2.1, the Joint Venture shall reallocate to the Venturers participating in such Subsequent Operation, in the proportion that such Venturers are entitled to share in the Profits from the Subsequent Operations as set forth in Subsection 8.4.2, the adjusted basis of the portion of the property upon which the Subsequent Operation is to be undertaken.

8.2.3: **Records and Adjustments.** Each Venturer is solely responsible for and shall separately keep records of his or her share of the adjusted basis in each oil and gas property of the Joint Venture, adjust such share of the adjusted basis for any depletion taken on such property, and use such adjusted basis each year in computing his or her cost depletion (if applicable) or his or her gain or loss on the disposition of such property by the Joint Venture. A Substitute Venturer shall succeed to the basis allocated to the transferor of his or her Interest(s).

8.3: **Allocations of Profits, Losses and Amounts Realized.**

8.3.1: **Initial Operations.** Except as provided in Sections 8.3.3 and 8.3.4, Profits and Losses as they relate to Initial Operations shall be allocated:

(a) 99% to the Venturers; and

(b) 1% to the Managing Venturer.

Each Venturer other than the Managing Venturer except to the extent such Managing Venturer holds Interests (or other Holder of Record) shall share Profits and Losses that are allocated to the Venturers pursuant to section 8.3.1(a) in the proportion that such Venturer's Interests bears to the total Interests of all Venturers.

8.3.2: **Subsequent Operations.** Except as provided in Sections 8.3.3 and 8.3.4, all Profits and Losses derived by and attributable to each Subsequent Operation shall be allocated:

(a) 99% to the Participating Venturers in such Subsequent Operation; and

(b) 1% to the Managing Venturer.

Each Participating Venturer in such Subsequent Operation, other than the Managing Venturer except to the extent such Managing Venturer holds Interests, shall share Profits and Losses that are allocated to the Venturers pursuant to Section 8.3.2(a) in the proportion that such Participating Venturer's Additional Assessment Contributions bears to the Additional Assessment Contributions of all such Participating Venturers and in accordance with the provisions of Article II of this Agreement.

8.3.3: **Regulatory Allocations.** Notwithstanding anything to the contrary in Sections 8.3.1 and 8.4.2:

(a) **Qualified Income Offset.** This Section 8.3.3(a) incorporates the "qualified income offset" set forth in Regulation section 1.704-1(b)(2)(ii)(d) as if those provisions were fully set forth in this Section 8.4.3(a).

(b) **Minimum Gain Chargeback.** In the event there is a net decrease in Partnership Minimum

Gain during any fiscal year, the "minimum gain chargeback" described in Regulation section 1.704-2(f) and Regulation section 1.704-2(g) shall apply.

(c) **Partner Nonrecourse Debt Minimum Gain Chargeback.** In the event there is a net decrease in Partner Nonrecourse Debt Minimum Gain during any fiscal year, the "partner minimum gain chargeback" described in Regulation section 1.704-2(i)(4) shall apply.

(d) **Nonrecourse Deductions.** Nonrecourse Deductions for any fiscal year shall be allocated 99% to the Venturers (excluding the Managing Venturer except to the extent the Managing Venturer holds Interests, and among the Venturers in the proportion that each Venturer's Interests bears to the total Interests of all Venturers) and 1% to the Managing Venturer.

(e) **Partner Nonrecourse Deductions.** The Partner Nonrecourse Deductions of the Venturer (as determined under Regulation section 1.704-2(i)(2)) shall be allocated each year to the Venturer that bears the economic risk of loss (within the meaning of Regulation section 1.752-2) with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable.

(f) **Code Section 754 Adjustment.** To the extent an adjustment to the adjusted tax basis of any Venture asset, pursuant to Code sections 734(b) or 743(b) is required, pursuant to Regulation sections 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution to a Venturer in complete liquidation of its Venture interest, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specifically allocated to the Venturers in accordance with their share of Venture Profits as determined under Sections 8.3.1 or 8.3.2, as appropriate (in the event Regulations section 1.704-1(b)(2)(iv)(m)(2) applies) or to the Venturer to whom such distribution was made (in the event Regulations section 1.704-1(b)(2)(iv)(m)(4) applies).

8.3.4 **Losses.** The Losses allocated pursuant to Sections 8.3.1 and 8.3.2 shall not exceed the maximum amount of Losses that can be so allocated without causing any Venturer to have an Adjusted Capital Account Deficit. In the event some but not all of the Venturers would have an Adjusted Capital Account Deficit as a consequence of an allocation of Losses pursuant to Sections 8.3.1 or 8.3.2, this limitation shall be applied on a Venturer by Venturer basis so as to allocate the maximum permissible Loss to each Venturer subject to the limitation under Regulations Section 1.704-1(b)(2)(ii)(d). All Losses in excess of the limitation set forth herein shall be allocated to the other Venturers in proportion and to the extent such Losses would not cause any such other Ventures to have an Adjusted Capital Account Deficit.

8.4. **Other Allocation Rules.**

(a) Profits, Losses and any other items of income, gain, loss or deduction shall be allocated to the Venturers as of the last day of each fiscal year, or at such other time as the Managing Venturer determines that it is necessary to allocate Profits and Losses.

(b) Each item of Venture income, gain, loss, deduction and credit as determined for Interested States federal income tax purposes shall be allocated among the Venturers in the same manner as such items are allocated for book purposes in accordance with the provisions of this Section 8.4(b).

(c) The Venturers are aware of the Interested States federal income tax consequences of the allocations made by this Article VIII and hereby agree to be bound by the provisions of this Article VIII in reporting their shares of income and loss for Interested States federal income tax purposes.

(d) For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the Managing Venturer using any permissible method under Code Section 706 and the Regulations there under.

(c) All of the Venture's "excess nonrecourse liabilities" within the meaning of Regulations Section 1.752-3(a)(3) shall be allocated 99% to the Venturers (excluding the Managing Venturer except to the extent that the Managing Venturer owns Interests, and among the Venturers in the proportion that each Venturer's Interests bears to the total Interests of all Venturers) and 1% to the Managing Venturer.

8.5 Code section 704. In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Venture shall, solely for tax purposes, be allocated among the Venturers so as to take account of any variation between the adjusted basis of such property to the Venture for Interested States federal income tax purposes and its initial Gross Asset Value.

Any elections or other decisions relating to such allocations shall be made by the Managing Venturer in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 8.5 are solely for purposes of Interested States federal, state, and local income taxes and shall not affect, or in any way be taken into account in computing, any Venturer's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provisions of this Agreement.

8.6: Distributions.

8.6.1 Initial Operations.

(a) 99% to the Venturers; and

(b) 1% to the Managing Venturer.

Each Venturer, other than the Managing Venturer except to the extent such Managing Venturer holds Interests (or other Holder of Record), shall share in distributions of Net Cash Flow pursuant to Section 8.6.1(a) in the proportion that such Venturer's Interests bears to the total Interests of all Venturers.

8.6.2. Subsequent Operations.

(a) 99% to the Participating Venturers in such Subsequent Operation; and

(b) 1% to the Managing Venturer.

Each Participating Venturer in such Subsequent Operation, other than the Managing Venturer except to the extent such Managing Venturer holds Interests, shall share in distributions of Net Cash Flow pursuant to Section 8.6.2(a) in the proportion that such Participating Venturer's Additional Assessment Contributions bears to the Additional Assessment Contributions of all such Participating Venturers and in accordance with the provisions of Article II of this Agreement.

8.7: Distributions in Kind. In no event shall a Venturer have the right to demand property other than cash with respect to any return of invested capital. During the term of the Joint Venture the Managing Venturer shall make no distribution of property in any form other than in cash. On liquidation of the Joint Venture, the Managing Venturer may, in its sole and absolute discretion, distribute property other than cash to any or all of the Venturers.

8.8: Tax Elections. The Joint Venture shall exercise its option to deduct Intangible Costs pursuant to Code section 263(c). In addition, the Managing Venturer, in its sole and absolute discretion (subject to a Vote to the contrary), may cause the Joint Venture to make or revoke the election referred to in Code section 754 or any similar provision enacted in lieu thereof, and make or revoke any other election or option that may be available to the Joint Venture under the Code.

ARTICLE IX

TERMINATION AND DISSOLUTION

9.1: **Causes for Termination and Dissolution.** The Joint Venture shall be wound up and terminated on the date set forth in Section 1.6 hereof. Otherwise, the Joint Venture shall be dissolved and terminated prior to such date only upon the happening of the events as specified in the Texas Code. Upon the bankruptcy, insolvency, death, or legal incapacity of a Venturer or the abandonment of Interests by a Venturer (or, in the case of a Venturer that is a partnership, joint venture, association, corporation or trust, its insolvency, dissolution or bankruptcy), or upon the occurrence of any other event that would otherwise give rise to the winding up of the Joint Venture, the Joint Venture shall be wound up but not terminated. Instead, in consideration of their mutual covenants, all of the Venturers agree and Vote in advance that in the event of the death, bankruptcy, insolvency, incapacity, or dissolution of any Venturer, or upon the occurrence of any other event that would otherwise give rise to the winding up and termination of the Joint Venture, the Joint Venture shall be continued and the business affairs shall continue and not be liquidated, and each Venturer hereby specifically waives his or her liquidation rights in such an event. However, the Venturers may rescind their Vote to continue the Joint Venture by unanimous Vote within thirty (30) days after the event causing the winding up. Termination of the Joint Venture shall be caused or obtained only in the manner set forth in this Article IX. The continued joint venture shall assume all liabilities of the dissolved Joint Venture.

9.2: **Liquidation.** Upon winding up and termination of the Joint Venture as set forth in Section 9.1 hereof, if the Joint Venture is not continued, the Joint Venture shall engage in no further business other than such business as may be necessary to wind up its affairs and to distribute its assets.

9.3: **Liquidator.** The Managing Venturer shall serve as Liquidator, unless a substitute is appointed by a Vote of the Venturers.

9.4: **Disposition of Assets.** On the winding up and termination of the Joint Venture, the Liquidator shall, by the later of the end of the taxable year in which the termination occurs or ninety (90) days after the termination:

9.4.1: **Determine Assets and Capital Accounts.** Determine the interest of the Joint Venture in each Joint Venture asset and determine the Capital Account of each Venturer;

9.4.2: **Pay Debts.** Pay all Joint Venture debts, or otherwise make adequate provision therefor;

9.4.3: **Adjust Capital Accounts For Other Property.** Sell or determine the Gross Asset Value of the remaining Joint Venture assets using such appraisal techniques it deems to be appropriate, taking into account the nature of the property interests. With respect to any properties not sold, the Liquidator shall, prior to any distribution of such property by the Joint Venture, adjust the Capital Accounts of all Venturers to reflect the manner in which the unrealized Profits or Losses inherent in such assets (that have not been reflected in the Capital Accounts previously) would be allocated among the Venturers, if there was taxable disposition of such assets for their Gross Asset Value on the date of distribution.

9.4.4: **Final Statement of Account.** As promptly as possible after dissolution, cause a final statement of account to be prepared, which shall show with respect to each Venturer, the status of such Venturer's Capital Account and the amount, if any, owing to the Joint Venture. Such statement of each Venturer's Capital Account shall reflect all the allocations provided in Article VIII hereof and the allocations to the Capital Accounts set forth in Sections 9.4.3 and 9.4.4 hereof.

9.4.5: **Distribute Assets.** The remaining Joint Venture assets (or cash realized from a sale thereof) shall be distributed to the Venturers in accordance with Section 8.6.1 or 8.6.2, as applicable, based on whether the liquidation occurs during Initial Operations or Subsequent Operations.

9.4.6: **Withholding to Pay Debts of Venturers.** Notwithstanding the foregoing, if any Venturer is indebted to the Joint Venture, then until repayment thereof by him or her, the Liquidator shall retain such Venturer's distributive share of Joint Venture properties and apply such properties and the income therefrom to the full discharge

and payment of such indebtedness and the cost of the operation of such properties during the period of such Liquidation; provided, however, if at the expiration of six (6) months after the Final Statement of Account has been given to such Venturer, such amount has not been paid or otherwise settled in full, the Liquidator may sell the interest of such Venturer at a public or private sale at the best price immediately obtainable, which shall be determined in the sole and absolute judgment of the Liquidator. So much of the proceeds of such sale as shall be necessary shall be applied to the payment of the amount then due under this Section, and the balance of such proceeds, if any, shall be delivered to such Venturer.

9.4.7: **Other Requirements of Law.** The Liquidator shall comply with any requirements of the Texas Code or other applicable law pertaining to the winding up of a partnership at which time the Joint Venture shall stand terminated.

9.5: **No Recourse.** Upon winding up or termination of the Joint Venture, each Venturer shall look solely to the assets of the Joint Venture for the return of such Venturer's investment. If the Joint Venture assets remaining after payment and discharge of debts and liabilities of the Joint Venture, including any debts and liabilities owed to any one or more of the Venturers, is not sufficient to satisfy the rights of each Venturer, such Venturer shall have no recourse or further right or claim against the Managing Venturer, any Affiliate, any officer, director, employee, attorney or agent of the Managing Venturer or of any Affiliate, or the remaining Venturers.

9.6: **Reserves.** In winding up the affairs of the Joint Venture and distributing its assets, the Liquidator shall set up a reserve to meet any contingent or unforeseen liabilities or obligations, and shall deposit funds for such purpose, together with funds held by the Joint Venture for distribution to Venturers which remain unclaimed after a reasonable period of time, with an escrow agent retained for the purpose of disbursing such reserves and funds. At the expiration of such period as the Liquidator deems advisable, the escrow agent shall be authorized and directed to distribute the balance thereafter remaining in the manner provided in Section 9.4 hereof.

ARTICLE X

INDEMNIFICATION

10.1: **Indemnification.** The Joint Venture shall indemnify any person who is or was (i) a Managing Venturer of the Joint Venture, (ii) while a Venturer of the Joint Venture, serving at the request of the Joint Venture as a partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, against reasonable expenses incurred by them in connection with the defense of any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, any appeal in such an action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding, where the person who was, is, or is threatened to be made a named defendant or respondent in a proceeding was named because the person is or was the Managing Venturer or a Venturer, whichever is applicable, of the Joint Venture, including indemnification for such Venturer's own negligence.

10.2: **Successful Defense.** The Joint Venture shall indemnify each Venturer against reasonable expenses incurred by him or her in connection with a proceeding in which he or she is a party because he or she is a Venturer if he or she has been wholly successful, on the merits or otherwise, in the defense of the proceeding.

10.3: **Exclusions.** A Venturer may not be indemnified under this Article X for obligations resulting from a proceeding in which the person is found liable to the Joint Venture as a result of gross negligence or willful misconduct.

10.4: **Expenses.** "Expenses" as used herein means court costs, attorneys' fees, judgments, penalties (including excise and similar taxes), fines, settlements and other reasonable expenditures actually incurred by the person in connection with the proceeding; provided, however, if the proceeding is brought by or in behalf of the Joint Venture, the indemnification is limited to reasonable expenses actually incurred by the person in connection with the proceeding. A determination of reasonableness of expenses shall be made by a Vote.

10.5: **Advance Reimbursement.** Reasonable expenses incurred by a Venturer under this Article X who

was, is or is threatened to be named a defendant or respondent in a proceeding may be paid or reimbursed by the Joint Venture in advance of the final disposition of the proceeding after (i) the Joint Venture receives a written affirmation by the Venturer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification under this Article X and a written undertaking by or on behalf of the Venturer to repay the amount paid or reimbursed if it is ultimately determined that he or she has not met the requirements of this Article X.

10.6: **Appearance as Witness or Otherwise.** The Joint Venture shall pay or reimburse expenses incurred by a Venturer under this Article X in connection with his or her appearance as a witness or other participant in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, any appeal in such action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding, at a time when such Venturer is not a named defendant or respondent in the proceeding.

ARTICLE XI

MISCELLANEOUS PROVISIONS

11.1: **Notice.** Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been duly given and received for all purposes on the date delivered personally to the party or to an officer of the party to whom the same is directed, or when deposited by registered or certified mail, postage and charges prepaid and addressed as follows:

11.1.1: **Joint Venture or Managing Venturer.** If to the Joint Venture or to the Managing Venturer, then to the address of the principal place of business of the Joint Venture set forth herein or as may be changed from time to time; and

11.1.2: **Venturers.** If to a Venturer, then to the address of such Venturer as set forth in his or her Execution Page and Power of Attorney attached hereto as Exhibit "A" executed by such Venturer or other agreement or instrument in which such Venturer has agreed to be bound by the terms and conditions of this Agreement. Any party hereto may change his, her or its address to which notice shall thereafter be given by furnishing written notice to all the Venturers and the Joint Venture in the manner set forth in this Section.

11.2: **Integration.** This Agreement, together with the Questionnaire and the Subscription Agreement attached to the Memorandum as Exhibits, respectively, constitute the entire understanding of the parties hereto with respect to the subject matter hereof. No amendment, modification, or alteration of the terms of this Agreement shall be binding unless the same shall be in writing, dated subsequent to the date hereof and duly adopted by the Venturers, as provided herein. In the event that any provision of this Agreement conflicts with any statement made in the Confidential Information Memorandum, or in any Operating Agreement, or in any other document, the provisions of this Agreement shall prevail over such other statement.

11.3: **Severability.** If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or enforceability of the remainder of this Agreement.

11.4: **Applicable Law.** This Agreement and the application or interpretation hereof shall exclusively be governed by and construed in accordance with the laws of the State of Texas. This Agreement shall be deemed to be performable in and venue shall be mandatory in Bexar County, Texas.

11.5: **Execution in Counterparts.** This Agreement and any amendment hereto may be executed in any number of counterparts, either by the parties hereto or their duly authorized attorney-in-fact, with the same effect as if all parties had signed the same document, or by the execution of the Power of Attorney and Execution Page in the form attached hereto as Exhibit "A" and made a part hereof. All counterparts (including such executed Power of Attorney and Execution Pages) shall be construed as and shall constitute one and the same Agreement.

11.6: **Descriptive Headings.** The captions included herein are for administrative convenience only and shall not be considered in interpreting any of the terms or provisions of this Agreement.

11.7: Gender and Number. Whenever the context shall so require, all words used herein in the male or neuter gender shall be deemed to include the female or neuter gender; all singular words shall include the plural, and all plural shall include the singular, as the context may require.

IN WITNESS WHEREOF, this Agreement has been executed by the Managing Venturer as of December 5, 2011 and by each Venturer on the date indicated opposite his or her signature hereto or the date of each such Venturer's execution of an Execution Page and Power of Attorney hereto, each of which is hereby incorporated herein and made a part hereof.

MANAGING VENTURER:
Alfaro Oil & Gas, LLC

By: _____
Brian Alfaro, President

EXHIBIT "A"

JOINT VENTURE AGREEMENT

OF

THE SCREAMING EAGLE 1H WELL JOINT VENTURE
(A TEXAS JOINT VENTURE)

EXECUTION PAGE AND POWER OF ATTORNEY

The undersigned acknowledges that he or she has received a copy of the Joint Venture Agreement and the Confidential Information Memorandum to which such Agreement is attached as an exhibit and has read and understands same and the restrictions of the Joint Venture Agreement including, but not limited to the right of the Managing Venturer to make certain assessments and the restrictions on transfer of Venturer's interests in the Joint Venture (Interests), all as set forth in the Joint Venture Agreement, and to the same extent and effect as if the undersigned executed the original of the Joint Venture Agreement.

In addition and by his or her execution hereof, the undersigned hereby constitutes and appoints Alfaro Oil & Gas, LLC, in its capacity as Managing Venturer of the captioned joint venture, and/or any duly authorized officer thereof with full power of substitution in the premises, as his true and lawful attorney in fact, for him and in his name, place and stead and for his use and benefit to attach this EXECUTION PAGE AND POWER OF ATTORNEY to the Joint Venture Agreement and to execute, acknowledge, swear to, certify, verify, deliver, record, file and publish as necessary:

(1) Any certificate, document or instrument as may be required, necessary or desirable under the laws of the State of Texas or the laws of any other state in which the captioned Joint Venture may be qualified, reformed or conducting business; and

(2) All instruments that reflect a change in the Joint Venture or change in, or amendment to this Agreement by a Vote of the Venturers.

The undersigned further authorizes such attorney in fact to take any further action that such attorney in fact considers necessary or advisable in connection with any of the foregoing, hereby giving such attorney in fact full power and authority to do and perform each and every actor thing whatsoever requisite or advisable to be done in and about the foregoing as fully and to the same extent as such Venturer might or could do if personally present, hereby ratifying and confirming all that such attorney in fact shall lawfully do or cause to be done by virtue hereof; provided, that in no event may the Managing Venturer utilize this power of attorney to cast any vote or consent of the undersigned as to the matters with respect to which the Venturers are entitled to Vote under the terms of this Agreement or by law.

The undersigned hereby agrees to be bound by any representations made by the Managing Venturer acting in good faith pursuant to such power of attorney; and hereby waives any and all defenses, which may be available to contest, negate, or disaffirm the action of the Managing Venturer taken in good faith under such power of attorney.

The undersigned has and does hereby agree to execute any and all additional forms, documents or instruments as may be reasonably necessary or required by the Managing Venturer to evidence this power of attorney. This power of attorney shall be deemed coupled with an interest and shall survive the death or disability of the undersigned, or the assignment or transfer of the undersigned's interest in the Joint Venture, until the transferee(s) or assignee(s) shall become a Substitute Venturer as required by the Joint Venture Agreement, or shall have otherwise executed such instrument(s) as the Managing Venturer reasonably deems to be necessary to bind such transferee(s) or assignee(s) under the terms of the Joint Venture Agreement, as from time to time amended, and the terms of this power of attorney.

IN WITNESS WHEREOF, the undersigned has executed this EXECUTION PAGE AND POWER OF ATTORNEY as of the _____ day of _____, _____, in the state of _____.

VENTURER:

_____
(Signature)

_____
(Name Printed or Typed)

_____
Business or Entity

Preferred Mailing Address
(if other than Residence):

_____

_____

Address:

_____

_____

Social Security (or Tax I.D.) Number:

_____

EXHIBIT "B"

ALFARO
OIL AND GAS, LLC

EXHIBIT "B"

SUBSCRIPTION AGREEMENT

NOTICE: PARTICIPANTS IN THIS JOINT VENTURE ARE PROVIDED EXTENSIVE AND SIGNIFCANT MANAGEMENT POWERS. PARTICIPANTS ARE AND WILL BE EXPECTED TO EXERCISE SUCH POWERS AND ARE PROHIBITED FROM RELYING ON THE MANAGING VENTURER FOR THE SUCCESS OR PROFITABILITY OF THE VENTURE.

TO: Alfaro Oil & Gas, LLC,
Managing Venturer
21022 Gathering Oak, Suite 2101
San Antonio, Texas 78260

Re: The Screaming Eagle 1H Well Joint Venture, a joint venture to be formed under Texas law (the "Venture")

1. **Application.** The undersigned hereby applies to participate as a Joint Venturer (a "Participant") in the Venture to the extent of _____ (fill in number of Interests) Interests, in the amount of $99,888 per Interest and agrees to contribute as initial payment towards capitalization therefore the sum of $26,722 in cash. **Checks should be made payable to "THE SCREAMING EAGLE 1H WELL JOINT VENTURE".** The undersigned agrees to pay the remaining sums constituting the balance of the price of the Interests being purchased by the undersigned immediately upon request of the Managing Venturer.

2. **Acceptance or Rejection.** The undersigned understands that the Managing Joint Venturer, Alfaro Oil & Gas, LLC ("Alfaro" or "Managing Venturer"), in its sole discretion and for any reason, may accept or reject this Application and tender of initial capitalization, in whole or in part.

3. **Escrow Account.** The undersigned understands that the total amount submitted will be deposited in an escrow or segregated account and will be promptly returned to the undersigned without interest if: (a) this Application has not been accepted and is subsequently rejected by the Managing Venturer as provided in the Joint Venture Agreement (the "Agreement"); or, (b) capitalization of less than $99,888 of Initial Interest Contribution (the "Initial Capitalization") is received by the close of the Capitalization Period. It is understood and agreed that if this Application is accepted by the Managing Venturer and the Venture is fully capitalized by such date, the funds tendered herewith shall be deposited to the general account of the Venture and shall be considered assets of the Venture and applied in accordance with the Joint Venture Agreement. If the undersigned is allocated less than the number of Interests applied for and the full amount for the Interests has been timely paid in full, the Managing Venturer shall remit the balance of the full amount paid, if any, with interest, to the undersigned within thirty (30) days after such partial acceptance of this Application.

4. **Information.** The undersigned acknowledges and warrants that: (1) the information received concerning participation in the Venture was made only through direct, personal communication between the undersigned and one or more representatives of the Placement Agent, Joint Venture and Managing Venturer; (2) the undersigned has received and read a copy of the Confidential Information Memorandum (the "Memorandum") and the Joint Venture Agreement, including all exhibits and supporting documents thereto; (3) the undersigned has had the opportunity to obtain all additional information desired in order to verify or supplement the material contained in the Memorandum; (4) the undersigned has not been promised or guaranteed any specified return on their investment, agrees that their investment in this oil and gas joint venture carries substantial risk of a dry hole(s), and is prepared, and has the financial ability, to lose all or a substantial portion of their investment; (5) the undersigned acknowledges and warrants that he has not relied upon or made his investment decision based upon any of the projections, estimates or other forward-looking statements contained in this Memorandum or in oral conversations with representatives of the Placement Agent or Alfaro and (6) the undersigned has been advised in writing by the Managing Venturer that a Participant must be prepared to bear

the economic risk of such participation for an indefinite period because of (a) the nature of a venture in oil and/or gas exploration and development; and (b) the substantial restrictions on transfer of the Interests as set forth in, among other documents, this Subscription Agreement and the Joint Venture Agreement. By executing this Agreement, the undersigned warrants and represents that the undersigned is financially able to bear the risk of losing his entire capital contribution.

5. **Execution of Agreement.** When accepted by the Managing Venturer, in whole or in part, this Agreement shall be valid and binding on the undersigned and the Venture for all purposes. The undersigned represents and warrants that the undersigned has received, read and understands the Joint Venture Agreement. The signature of the undersigned to this Subscription Agreement may be deemed for all purposes as the execution of the Joint Venture Agreement by the undersigned to the same extent and effect as if the undersigned has signed the Joint Venture Agreement on the date of the acceptance of this Application by the Managing Venturer. If requested, the undersigned agrees to execute the Joint Venture Agreement or a multiple original copy of such document.

6. **Restrictions on Transfer.** The undersigned understands and acknowledges that the Joint Venture Agreement contains certain provisions restricting the transfer of the Interests applied for hereby and to which the undersigned will be bound. If this Application is accepted in whole or in part, the undersigned agrees that the undersigned will not sell or attempt to sell all or any part of the Interests allocated to the undersigned unless he has complied with the restrictions on transfer contained in the Joint Venture Agreement.

7. **Indemnification.** The undersigned recognizes that the acceptance of his Application will be based upon his representations and warranties set forth herein and in other instruments and documents relating to the participation of the undersigned in the Venture, and the undersigned hereby agrees to indemnify and defend the Managing Venturer and the Venture and to hold such firms and each officer, director, agent, attorney and/or Participant thereof harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, to which they may be put or which they may incur by reason of, or in connection with, any misrepresentation made by the undersigned in this Subscription Agreement, the Questionnaire, or elsewhere, any breach by the undersigned of his warranties, and/or failure by him to fulfill any of his covenants or agreements set forth herein or elsewhere. In addition, any such breach shall result in forfeiture of his Venture interests.

8. **Confidentiality.** The undersigned acknowledges and understands that upon his (her) acceptance as a Venturer he (she) shall come into possession of confidential information which relates to Joint Venture ("Confidential Information") including, but not limited to, specific information which relates to the individual Venturers as well as the business of the Joint Venture. The undersigned agrees that he (she) will keep the Confidential Information confidential and that no Confidential Information shall be disclosed or otherwise disseminated except when necessary for legitimate Joint Venture purposes. The undersigned acknowledges and agrees that in the event of any breach of this provision the Joint Venture would be irreparably and immediately harmed and could not be made whole by monetary damages. Accordingly, the undersigned agrees that in addition to any other remedy to which the Joint Venture may be entitled at law or in equity, the Joint Venture shall be entitled to an injunction (without posting of bond and without proof of actual damages) to prevent further breaches of this provision.

9. **Privacy Policy.** The undersigned hereby requests that his/her name, address, social security number, telephone number and other personal data not be disseminated to other members of the joint venture or any third party, except for contractors of the joint venture as necessary, without written permission from the undersigned UNLESS the release of my information is in response to a court order or validly issued subpoena.

10. **Entire Agreement.** This writing, along with the Memorandum (and exhibits attached thereto) and the Questionnaire, contains the entire agreement of the parties with respect to the matters contained herein, supersedes all oral agreements and representations, and may be changed, altered or amended only by a writing specifically referring to this Subscription Agreement and signed by the party against whom enforcement of the change, alteration or amendment is sought.

11. **Applicable Law and Arbitration**. This Agreement will be construed according to the laws of the State of Texas, and is performable in the City of San Antonio, Bexar County, Texas. Notwithstanding the place where this Agreement may be executed by any of the parties hereto, the parties expressly agree that all of the terms and provisions hereof shall be construed in accordance with and governed by the laws of the State of Texas applicable to agreements

made and to be wholly performed therein. Any controversy or claim arising out of or relating to any interpretation, breach or dispute concerning any of the terms or provisions of this Subscription Agreement or any other matter in any way affecting the Joint Venture, which disagreement is not settled in writing within thirty (30) days after it arises, shall be exclusively and solely resolved by arbitration in San Antonio, Texas, before the American Arbitration Association, in accordance with the laws of the State of Texas and under the rules then obtaining of the American Arbitration Association (or any successor thereto), and judgment upon the award rendered in said arbitration shall be final and may be entered in any court in the State of Texas, or elsewhere, having jurisdiction thereof. The undersigned acknowledges and understands that no class action arbitration may be brought pursuant to this arbitration clause. The undersigned hereby waives any ability to bring a class arbitration related to his or her purchase of joint venture interests and membership and participation in this Venture. Any party hereto may apply for such arbitration. Unless otherwise provided in any award by the arbitrator(s), each party shall bear their own attorney's fees, and costs and expenses of any arbitration proceeding, regardless of outcome.

DATED: _____, 20_____.

Application for _____ Interest(s), at $_____ per Interest.

OWNERSHIP OF RECORD

Amount Enclosed: $_____

_____
Individual (Signature)
OR

_____
Printed Name for Ownership of Record

_____
Business or Entity (Signature)

_____
Residence Address

_____
Area Code and Telephone Number

_____
City State Zip Code

_____
Social Security Number (Individual)
Employer Identification Number
(Specify Type of Entity)

Preferred Mailing Address
(if other than Residence):

_____

_____

EXHIBIT "C"

ALFARO
OIL AND GAS, LLC

EXHIBIT "C"

SUITABILITY QUESTIONNAIRE

TO: Alfaro Oil & Gas, LLC,
Managing Venturer
21022 Gathering Oak, Suite 2101
San Antonio, Texas 78260

Re: THE SCREAMING EAGLE 1H WELL JOINT VENTURE
A Texas Joint Venture (the "Joint Venture")

Gentlemen:

I, the undersigned, hereby acknowledge receipt from Alfaro Oil & Gas, LLC ("ALFARO"), in its capacity as the Managing Venturer of the captioned Joint Venture of a Confidential Information Memorandum, together with all exhibits thereto, relating to the Interests of joint venture interests ("Interests") in the Joint Venture.

The undersigned understands that the Interests in the Joint Venture are not intended or considered by the Managing Venturer to be "securities," as that term is used in state and federal securities regulation; that participation in the Joint Venture is an active business venture requiring the exercise of experience and knowledge in business affairs while participating as a Venturer; and that participation in this Venture is not a passive investment or activity.

As a condition to participating as a Venturer, and knowing that you will rely upon the statements made herein in determining the suitability of the undersigned as a Venturer in the Joint Venture:

(Please initial both paragraphs)

_____ The undersigned warrants and represents that he or she possesses extensive experience and knowledge in business affairs such that he or she is capable of intelligently exercising his or her management powers as a Joint Venturer.

_____ The undersigned warrants and represents that the undersigned is not relying on the unique entrepreneurial or managerial ability of Alfaro or any Affiliate for the success of the captioned Venture, and that his or her experience and knowledge in business affairs enable the undersigned to replace Alfaro as Managing Venturer and Operator and otherwise exercise meaningful joint venture powers. The undersigned understands and stipulates for all purposes that other drillers, operators, Joint Venture Managers, and related oil and gas experts are readily available in Texas and competent to perform Alfaro's functions.

(Initial and complete the appropriate paragraph 1 below.)

_____ 1a. If an individual, I am _____ years of age and am a bona fide resident of the State of _____ with my principal residence in that state as set forth below my signature hereto. I am __ married, __ single with _____ dependents.

_____ 1b. (If the undersigned is a business entity) The undersigned is a business entity incorporated or organized under the laws of the State of _____ [and (if a partnership) all of its general partners are residents of the State(s) of _____]. The undersigned was formed on _____, 20__ and is engaged in a regular business not solely related to the Joint Venture contemplated hereby.

_____ 2. If the undersigned decides to participate in the Joint Venture and his or her Subscription Agreement is accepted, the Interests acquired by the undersigned will be acquired for the account of the undersigned only, and not for the account or benefit, in whole or in part, of any other person or business entity, and the undersigned has no present

intention of selling or distributing the same or any part thereof. The undersigned understands that the Interests may be sold only in accordance with the provisions contained in the Joint Venture Agreement (the "Agreement") of the Joint Venture and in the Subscription Agreement.

_____3. Any funds which may be tendered for participation in the Joint Venture will not represent funds borrowed by the undersigned from any person or lending institution except to the extent that the undersigned has a source of repaying such funds other than from the sale of the Interests so subscribed. Such Interests will not have been pledged or otherwise hypothecated for any such borrowing.

(Initial the appropriate paragraph 4 below and all applicable subparagraphs.)

_____4a. The undersigned meets the definition of an "accredited investor" for securities law purposes and satisfies the standard(s) set forth below which have been checked. (To be an "accredited investor" you need to satisfy only one of the standards listed; however, if you satisfy more than one of the standards, please so indicate by checking opposite each applicable standard.)

The undersigned is:

_____(i) An individual whose net worth, individually or in addition to that of his or her spouse, at the present time, exceeds $1,000,000 (excluding primary residence); or,

_____(ii) An individual who has had individual income in each of the two most recent years in excess of $200,000 or joint income with his or her spouse in excess of $300,000 in each of those years and who reasonably expects the same income level in the present year; or,

_____(iii) An entity, all of the equity owners of which are "accredited investors"; or,

_____(iv) An individual or entity who may otherwise be deemed an "accredited investor" as that term is defined in Rule 501(a) of Regulation D as promulgated by the Securities and Exchange Commission.

_____(v) An accredited investor under either subparagraph (i) and/or (ii) above; however, for reasons of financial privacy, hereby elects not to specify the precise basis for qualification.

_____4b. The undersigned is a person who has such knowledge and experience in financial and business matters so that he or she is capable of evaluating the merits and risks of participating in the Joint Venture as shown by the following.

(Please complete and initial each applicable paragraph below.)

_____(i) The undersigned graduated from _____ _____(college or university) and received a _____ degree.

_____(ii) The undersigned is presently: _____ _____ _____(job title or description) of/with _____ _____(name of employer) located at _____ _____(business address). Previously the undersigned has been employed: (list job titles and employers for the last five years, and attach additional sheets if necessary)

_____
_____
_____.

_____(iii) As part of one or more of the jobs listed above, the undersigned was responsible for: (list one or more particular responsibilities that you believe demonstrate your ability to analyze and evaluate the risks of participating in the Joint Venture and/or familiarity with business and financial matters, and use additional

sheets, if needed).

_____

_____

_____ (iv) The undersigned intends to rely upon a "representative" who has such knowledge and experience as set forth in this paragraph 4b. His name, address, telephone number and qualifications are as follows:

Name: _____
Address: _____
_____
Telephone: ( ) _____
Licensed as: (check appropriate line)
_____ Attorney
_____ C.P.A.
_____ Investment Advisor
Other Qualifications: _____
_____

If you use a representative, please have him complete the Representative Questionnaire attached hereto.

5. If you are not "accredited" as described in paragraph 4(a) above, please initial the appropriate line. The undersigned meets the financial suitability requirements set forth in the Confidential Information Memorandum, and the exhibits attached thereto, indicated below (check appropriate paragraph below):

_____ (a) The undersigned (together with his or her spouse, if any) has a net worth of not less than $200,000 (excluding home, furnishings and automobiles); or

_____ (b) The undersigned (together with his or her spouse, if any) has a net worth of not less than $100,000 (excluding home, furnishings and automobiles) and some portion of taxable income for the previous year was some portion of estimated taxable income for the current year will be subject to federal income taxation at the highest marginal tax bracket applicable to such year.

The undersigned's estimated annual income is $_____ primarily from (check one) | | employment | | investments, | | other, and an estimated liquid net worth (cash, securities, etc.) of $_____. My general investment objective is (number in order of priority): | | safety of principal | | income | | growth | | speculation. My investments\ objective with respect to participation with the Joint Venture is speculation.

6. The undersigned warrants and represents that notwithstanding his (her) age, financial position and general health that he (she) is capable of and has made an independent investment decision that participation in the Joint Venture is a suitable investment for him (her).

7. The undersigned will rely solely upon the Confidential Information Memorandum and the independent investigations made by the undersigned or the undersigned's representative indicated in 4b(iv) above, in making the decision to participate in the Joint Venture. The undersigned has been advised that there has not been and is not now a public market for the Interests and that there is little possibility that such a market will develop in the future. The undersigned understands and realizes that the Interests cannot be readily sold or liquidated in case of an emergency or other financial need and further that in any event, the transfer of the Interests is restricted in such a manner so that any proposed sale could be significantly delayed since the sale of Interests is subject to the first refusal of the other Venturers. The undersigned hereby represents and warrants to the Joint Venture that sufficient liquid assets are otherwise available to the undersigned so that participation in the Joint Venture will cause no undue financial difficulties.

8. The undersigned is aware that Alfaro (the Managing Venturer) and its Affiliates are and may in the future be engaged in businesses which are competitive with the business of the Joint Venture as described in the Confidential Information Memorandum and agrees and consents to such activities, even though there are conflicts of interest inherent therein.

9. The undersigned understands that the Confidential Information Memorandum and any other attachments to the Confidential Information Memorandum are confidential, and represents and warrants that he or she will not reproduce or distribute same in whole or in part nor divulge any of their contents without the prior written consent of the Managing Venturer. The undersigned further represents that should he or she not be interested in pursuing further negotiations or participation in the Interests referred to herein, he or she will promptly return the Confidential Information Memorandum to the Managing Venturer.

10. The undersigned acknowledges and understands that participation in the Joint Venture is not intended or considered by the Managing Venturer to be "securities" as that term is used in state and federal securities regulation; that notwithstanding the foregoing, the Managing Venturer may nevertheless seek to qualify the offer and sale of Interests as transactions exempt from the registration requirements of federal and state securities laws and regulations, as if the Interests were securities; that the Managing Venturer will rely upon the representations of the undersigned, as herein contained and as may be contained in other documents provided to the undersigned, in the application or qualification of any such aforementioned exemption.

11. The undersigned recognizes that the acceptance of his or her participation will be based upon his or her representations and warranties set forth herein above and the statements made by him or her herein or elsewhere in any document or instrument relating to the Joint Venture, and he or she hereby agrees to indemnify and defend the Managing Venturer and its Affiliates and the Joint Venture and to hold such firms and each officer, director, partner, agent and attorney thereof harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, to which they may be put or which they may incur by reason of, or in connection with, any misrepresentation made by him or her herein, any breach by the undersigned of his or her warranties and/or failure by him or her to fulfill any of his or her covenants or agreements set forth herein or arising out of his or her participation or acceptance in the Joint Venture in violation of state or federal laws.

EXECUTED this _____ day of _____, _____, in the state of _____.

_____
Applicant Signature

_____
Applicant's Printed Name

_____
Business or Firm

_____
Street Address

_____ _____
Area Code/Telephone Number City State Zip code

EXHIBIT "D"

ALFARO
OIL AND GAS, LLC

EXHIBIT "D"

TURNKEY AGREEMENT

This Turnkey Agreement has been entered into by and between The Screaming Eagle 1H Well Joint Venture, a Texas joint venture (the "Joint Venture"), and Alfaro Oil and Gas, LLC, a Texas limited liability company ("Alfaro").

Whereas, Alfaro has agreed, on behalf of the Joint Venture, to acquire up to 75.0% of the working interest and 53.4375% of the net revenue interest in an acquisition oil and gas prospect in Gonzales and Wilson Counties, Texas (the "Prospect");

Now, therefore, in consideration of the mutual promises, representations and covenants more fully set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereto agree as follows:

1. Contemporaneously herewith, and as a condition precedent to the consummation of this Agreement and any obligations of Alfaro hereunder, the Joint Venture will pay to Alfaro the sum of up to $7,491,600.00, which amount represents the sole sum which the Joint Venture will pay to Alfaro for the Prospect and Alfaro's obligation to acquire the Prospect and drill and complete the Prospect well, including, but not limited to, the setting of production casing or, if necessary, the plugging and abandoning of a dry hole, as more specifically referred to herein. The Joint Venture acknowledges that such sum is nonrefundable.

(a) Alfaro shall, on behalf of the Joint Venture, acquire the Prospect well and pay all sums necessary to drill and, if warranted, complete the Prospect well in a single target zone. Additional attempts at completion in the same zone, sidetracking or completion in a different zone are not included in the turnkey price and will be additional charges to the Venture

(b) Should the Joint Venture determine to abandon the Well after the agreed depth has been reached, Alfaro, as part of its obligation hereunder, and at its risk and expense, shall cause the Well to be plugged, and otherwise comply with state statutes and regulations regarding any such abandonment.

(c) Alfaro shall conduct all of its efforts in a good and workmanlike manner and with reasonable due diligence.

(d) In connection with all operations contemplated herein, Alfaro shall act as independent contractor and not an employee of the Joint Venture and shall have complete control over the manner and method of conducting all its operations. Additionally, Alfaro shall faithfully observe and comply with the following:

(a) Alfaro shall comply with all of the valid rules and regulations of any and all regulatory agencies having jurisdiction over such operations;

(a) The duly authorized agents or representative of the Joint Venture shall have free access to the Prospect well at any time and at all times for the purposes of observing such operation;

(b) Alfaro will disclose to the Joint Venture all information Alfaro has concerning the progress of the Prospect well and shall promptly disclose to the Joint Venture all information Alfaro has in connection with all tests made and the results thereof; and

(c) Alfaro will cause to be paid promptly all costs and expenses incurred for labor done, materials or supplies furnished, and services performed, and will protect the Prospect well against all liens or similar encumbrances on account thereof.

(e) This Agreement is intended to create a separate agreement between Alfaro and the Joint Venture. It is not intended, nor shall this Agreement be construed, to create any partnership or joint venture between Alfaro and the Joint Venture. The Joint Venture shall not be subject to any assessment by Alfaro for any costs and expenses incurred

in connection with "Initial Operations" of the Prospect, as that term is described in that certain Confidential Private Placement Memorandum dated December 5, 2011 regarding the Joint Venture.

(f) No change, modification, or alteration of the Agreement shall be binding upon either Alfaro or the Joint Venture, unless made in writing and executed by either party to which change, modification or alteration relates.

(g) This Agreement and the interpretation thereof shall exclusively be governed by and construed in accordance with the laws of the State of Texas. This Agreement shall be deemed to be performable, and venue shall be mandatory in San Antonio, Texas.

IN WITNESS WHEREOF, this Agreement has been executed by Alfaro and the Joint Venture on the date indicated opposite the signature thereto.

ALFARO OIL AND GAS, LLC

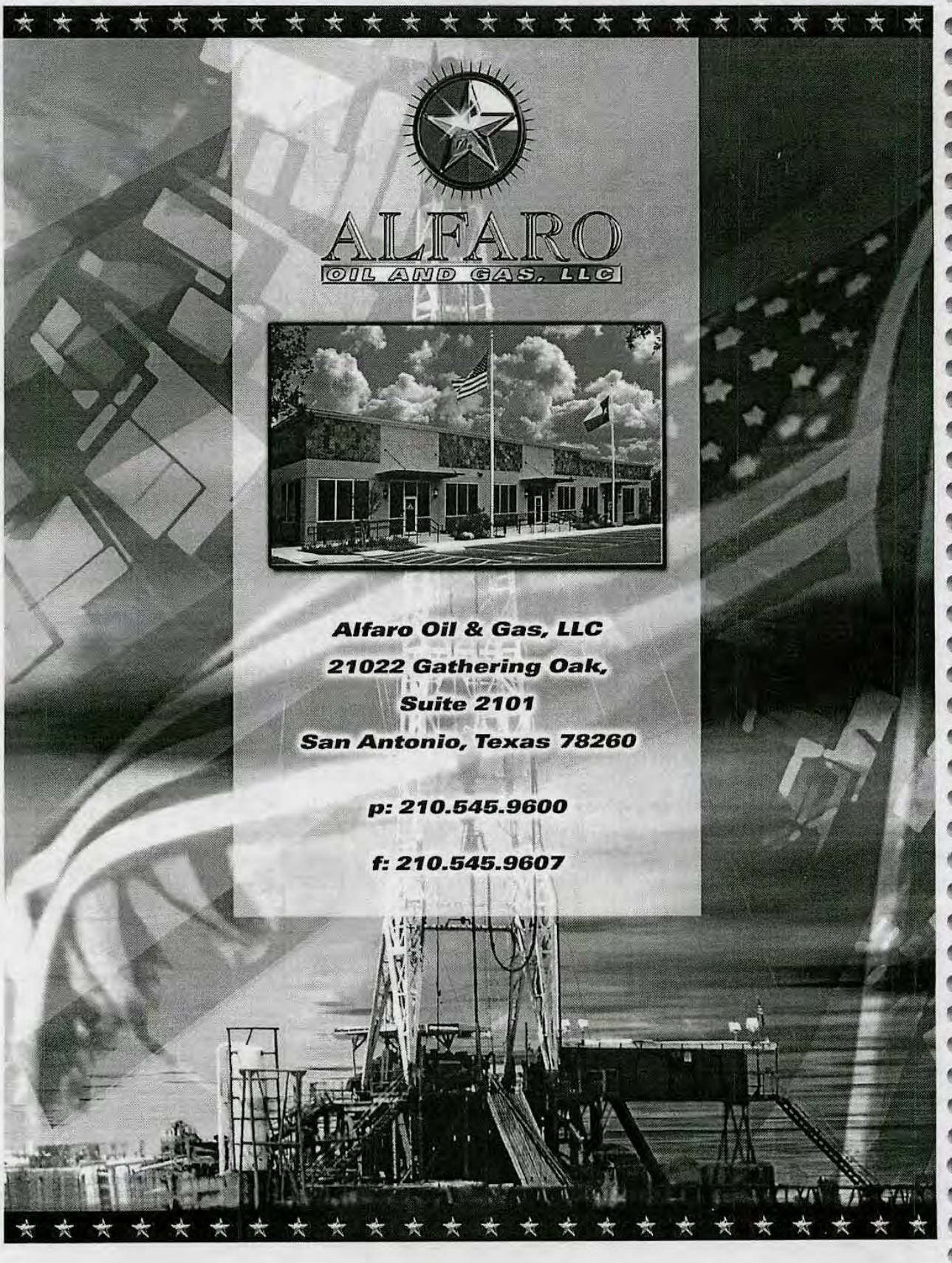
By:_____
Brian Alfaro, Chief Executive Officer

Dated: _____

THE SCREAMING EAGLE 1H WELL JOINT VENTURE
A Texas Joint Venture Partnership

By: _____
Brian Alfaro, Chief Executive Officer
Alfaro Oil and Gas, LLC, Managing Venturer

Dated: _____



ALFARO
OIL AND GAS, LLC

Alfaro Industry Partners

Abraxas Petroleum Corporation
Alpine Exploration, Inc.
Ameritex, Inc.
APL Group Holdings
Blue Moon Exploration
Brayton Operating Co.
Canan Operating
Caskids Operating
CICO Oil & Gas Company
Combined Resources Group
Crown Drilling Company
Edison Chouest, LLC
Einex Energy Corporation
Encon Services
Forza Operating
Guenther Oil & Gas, LTD
Gulftex Operating, Inc.
J & S Oil, Company
Jordan Oil Company
Kaler Energy Corporation
Legend Petroleum
Llymac, LLC
North Petroleum, Inc.
Riviera Production
Rudman Partnership
SH3D Exploration
Southeastern Petroleum Exploration
Southern Bay Energy
Suncoast Technical Services
Sunnyside Resource, Inc.
Tempest Energy Resources LP
Tetco-Enercorp, L.P.
Tri-Crescent Energy Corporation
US Emerald Energy Corporation
US Enercorp
Ventum Energy
Victor P Smith Oil Company
Walter Oil and Gas Corporation
Wave Exploration Group
Wejco, Inc
WTG Exploration, Inc.
XTO