

PROPOSAL FOR PARTICIPATION AND LETTER OF AGREEMENT

Riley-Surrat Well 2

October 22, 2006

Dear \_\_\_\_\_

Armstrong Lighting & Enterprises (ALE) hereby offers for sale undivided working interests in the drilling units of the oil and gas lease properties (hereafter referred to as the RS-2 and DC-1 prospects) in accordance with the terms and provisions herein.

These prospects consist of a well or wells to be drilled and operated on leaseholds containing approximately 150 acres in two separate tracts located in Cross County, Arkansas. Specifically, the Primary Well, RS-2 (first to be drilled) is Beginning at the Northwest Corner of Section Thirty-Three (33), Township Seven (7) North, Range Two (2) East; thence South 470 feet to a stake in the center of Cemetery Road; thence East 534 feet to a stake in center of Hamlin Road; thence North parallel with Hamlin Road, 455 feet to the Section line; thence West on Section line, 408 feet to the point of beginning, LESS one acre conveyed previously to church on North side, containing four (4) acres.) If no attempt at completion is made on the Primary Well, a well will be drilled on the Secondary Prospect (DC-1) which is located on adjacent leasehold of approximately 146 acres comprising "All of the North Half (N2) of the Northwest Quarter (NW3) lying East of Hamlin Road; The Northwest Quarter (NW3) of the Northeast Quarter (NE3), and the West Half (W2) of the Southeast Quarter (SE3) of the Northeast Quarter (NE3); all in Section Thirty-Three (33), Township Seven (7) North, Range Two (2) East, Cross County, Arkansas".

PROPOSAL:

ALE (referred to herein as Operator) proposes to commence operations to drill one test well on the RS-2 prospect and if upon testing, the well is deemed to merit an attempt at completion, to complete the well for production. If the well on RS-2 is a dry hole a second well will be drilled on the Prospect identified as DC-1. Should the well drilled on DC-1 prove to be productive, it will be completed for production. Drilling will be conducted and participation is offered under the following general terms and conditions. Investors participating under this proposal shall have the right of first refusal to participate in any well drilled on the acreage listed above.

Operator (or his heirs, successors, delegates or assigns) will drill and/or operate the subject lease premises with all reasonable diligence and in a good workmanlike manner, and in accordance with the usual or prudent oilfield practices for the area, and all drilling, testing, logging, completion, well hook-up construction, plugging, and/or other necessary or advisable operations will be done at the sole discretion of, and under the sole supervision, management and control of, Operator. Operator will determine all such services, materials, equipment and machinery as may be necessary or advisable in the performance of such operations and will obtain drilling rigs, logging companies, oil well completion crews and other services or equipment as Operator may deem advisable for the exploration for, or development of, oil or gas that may be found in, or under the subject premises.

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Operator will select the drill site(s) and will obtain all necessary permits (Drilling Permit issued to 2275 ft recorded page 3G Nov.27/05 Arkansas Democrat Gazette, Oil & Gas Report) and file all necessary reports with the State of Arkansas.

In the event an initial drill site has been selected, it is shown in an Exhibit or plat attached hereto. In the event there is production of oil or gas, ALE (and his heirs, successors or assigns of such rights) shall be the Operator of the subject lease land.

Notwithstanding anything in this instrument to the contrary, Operator shall not sell or assign for consideration the duties of Operator to any other party during his lifetime without giving the first right of refusal to Non-Operators participating in this lease. In the event that Non-Operators waive their right of refusal to undertake the operations of said leasehold estate, then Operator may assign such operating rights and duties without joiner of Non-Operators.

This offer pertains to rights to participate in an aggregate working interest which is 85.0% of 8/8 gross revenue interest (for division order purposes) until the production of 80,000 BB1 of oil has been produced from each prospect area and 82.5% of 8/8th thereafter. Investors in undivided working interest are to pay all costs in the manner indicated herein.

Participation is offered and will be sold in undivided working interests to participants. A 1/8 working interest owner will pay 1/7 of all costs of drilling and completion and will receive 1/8 of the working interest revenue (10.31% of gross income). Other working interest owners will receive an income share proportionate to the size of their working interests. ALE, Inc. will retain a 1/8 working interest and will be carried to the tanks in the first well drilled on each prospect. In subsequent wells on each prospect, ALE will pay its pro-rata share of all expenses.

The pay zone objective is the Upper Cretaceous, Nacatoch that may be encountered down to a depth of 2275 feet. The projected total depth of the wells is 2275 feet. The well will be drilled to the total projected depth, or to a depth sufficient to test the pay zone objective formation(s), or to such depth at which, in the judgment of Operator, casing should be run for a completion attempt, whichever event first occurs.

EXPENSES AND OFFER:

In the event of lost circulation (such as where a zone absorbs large quantities of drilling fluids, thereby creating the need for special additives for the mud), additional rig time and labor are required to get the mud into condition to stop the lost circulation problem. To the extent that these expenses are not covered by the drilling contract, these extra expenses will be borne by the Investors in proportion to their respective

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working interest investments.

In the event production is obtained, Operator will operate the well (or wells) and the lease, and each participant will pay his pro rate share of Operator's monthly operating fee in the amount of \$750.00. Each participant will also pay his pro rata share of the other monthly operating costs, to include costs for pumping, bookwork, repairs, road repairs, saltwater disposal fees, trucking fees, pulling machine fees, well repair fees, workover fees costs for extra oil tanks, purchase of needed equipment and well servicing, etc.

Operator hereby offers for sale undivided working interest in drilling units out of the subject Oil and Gas Leasehold estate and in the initial well described herein., on the basis as set out herein.

Non-Operator working interest participants will, collectively, pay the initial amount of \$126,520 for costs of lease acquisition and for the drilling, testing, and other costs up to the time immediately prior to the setting of casing in two wells (RS-2 & DC-1). Should the initial well merit an attempt at completion it will be completed using funds from the initial contributions and no further wells will be drilled. If the first well (RS-2) is a dry hole funds from the initial contribution will be used to drill a second well to be located on the DC-1 Prospect. In the instance that two wells are drilled substantially all of the initial contributions will have been expended. Should the second well drilled be productive completion funds in the aggregate amount of \$56,260 will be paid by the non-operators within 15 days of notice by the Operator of his intent to complete the second well drilled. (See Exhibit 3 for a break out of the proportionate working interest contributions.)

Investors shall have the right to inspect all drilling logs, test reports, etc., as are available to Operator at all times during the drilling or completion of the well.

RISK:

This offer is private, limited, subject to prior sale, and may be withdrawn without notice. It is not intended to be (and is not) registered with the State Securities Board or the Securities and Exchange Commission. Participants should be sophisticated and knowledgeable in oil and gas, and they should rely on their own experience and on the advice of experts they know and trust. They should recognize that exploring for oil and gas is risky and highly speculative, and Operator makes no warranties other than those specifically expressed.

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ASSIGNMENTS IN UNITS:

At those locations where production is established, acreage drilling units will be created. The amount of acreage constituting each drilling unit will be determined by the density and spacing requirements of the State of Arkansas or by the amount of acreage indicated herein, whichever amount is less, depending upon the deepest depth from which production is obtained in paying quantities.

In the event there are no field spacing rules in effect, then the amount of acreage constituting each drilling unit shall not be less than 40 acres.

No assignment in such well or unit will be made until production is obtained. If the first well (RS-2) is a dry hole, then assignments will not be made of this Leasehold. Upon completion of a producing well and payment in full of the amounts due from each Investor to Operator as herein specified to include drilling and completion costs Operator shall assign to each Investor his proportionate share of the working interest in the said rights in the Leasehold estate, but only insofar as the above mentioned amount of acreage around each producing or declared unit, together with a like interest in all personal property thereon or used in connection with said well with said assignment to be effective as of the date of first runs. Investor shall also retain the right to participate in subsequent wells, as provided for below.

In event an Investor, after appropriate notice, fails to timely pay his share of drilling or completion costs for a well by the due date as provided for herein, or elects not to participate further in the completion of a well, then such Investor's rights concerning said well and well unit shall terminate upon notice by, and at the option of, Operator, and all of said revert to Operator.

MARKETING AUTHORITY:

Operator is hereby given authority to market any and all petroleum products produced from the subject property, at a price based on the prevailing market prices in the field for such products. A price contracted for at "arms length" with a purchaser who is not an affiliate of Operator shall be presumed to be based on the said prevailing market prices. Such authority of Operator is further defined in the form of an Operating Agreement now acknowledged by the parties to be in use by Operator at the time of execution of this Agreement.

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OPERATING AGREEMENT:

The drilling and completion of the initial well to be drilled on the subject land is to be governed and controlled by (a) the provisions of this Letter of Agreement, notwithstanding any provisions in the Operating Agreement to the contrary, and (b) the Operating Agreement is not inconsistent with the terms of this Letter of Agreement. After completion of said well, subsequent operation and billing will be governed by the Operating Agreement to the extent that it is not inconsistent with the terms herein.

In event production is obtained in paying quantities, Operator will circulate his said form of Operating Agreement unto the various Investors and each Investor agrees to then sign such Operating Agreement to further designate and confirm the person named herein as Operator of the subject premises. Operator is not bound to execute any assignment to Investor until such Operating Agreement is signed.

Operator is to be free from liabilities of Investors in case of blowout, collapsed hole, or other extraordinary expenses and each Non-Operator shall pay his pro rata part of such extraordinary expenses. Operator will carry liability insurance after production is obtained and each Non-Operator shall be billed for his pro rata part of the costs of such insurance.

In event any Investor or person negotiating in good faith to purchase an interest in the Oil and Gas Leasehold estate in the above described property desires to examine the above referred to Operating Agreement, a copy may be obtained from Operator at the address given above or Operator may instead elect to allow such person to examine said instrument at his address or workplace at 7123 Interstate 30, Suite 38, Little Rock, AR 72209.

OPTION TO PARTICIPATE IN SUBSEQUENT WELLS THAT MAY BE DRILLED BY OPERATOR ON THE CONTRACT AREA:

After the first well is drilled and completed or the second well (DC-1) is drilled, in event further wells on the subject Leaseholds or Prospects are anticipated, Investor shall have thirty (30) days from date of notice by Operator of Operator's intention to drill an additional well or wells to give Operator notice as to whether or not Investor wishes to participate in the drilling of an additional exploration or developmental well or wells upon the same terms . and conditions as were agreed upon for Investor's participation in the initial well, subject to adjustments for inflation in costs. If Investor does not wish to participate in the drilling of additional wells, Investor hereby agrees to execute such releases or assignments as may be necessary or advisable (in Operator's judgment) in order that Operator and other Non-Operators participating in such further exploration shall be satisfied that they are able to explore for additional oil and/or gas without such non-participating Investor's joiner.

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NOTICE(S) AND ELECTION(S):

In event Investor receives actual notice of Operator's decision to complete the second well drilled (DC-1), and Investor fails to tender his share of the completion costs within fifteen (15) days after receipt of such notice, then Operator may elect (upon written notice of such election to Investor) to consider that such failure constitutes Investor's decision not to participate in the completion of such well, and Investor thereupon automatically surrenders unto Operator all of Investor's rights, title and interest in all of the Leasehold property and the personality and equipment used for such well or unit and for all well units that may be drilled on the Contract Area thereafter. In such case, Operator is further authorized, if he should (in his sole judgment) deem such necessary or advisable, (a) to execute and record in the Deed Records of any County wherein any part of the subject land may be located an Affidavit giving constructive or public notice of the extent of such automatic surrender or expiration and (b) to execute such Affidavit in his capacity as Operator and on behalf of such investor. Investor shall retain his rights in (and to receive assignments for) wells or units for which he paid his share of the drilling and completion and equipping costs, subject to the terms of this instrument. In event Investor elects not to participate in the completion and equipping of the initial test well on the Prospect, all of Investor's rights, title and interest in the entire subject Prospect shall thereupon automatically terminate.

PAYMENT:

It is further understood that lease bonus money, legal fees, and other costs of obtaining leases are included in the drilling costs of Operator and initial expense payable by Non-Operator(s) for the purchase of the right to participate in the subject Oil and Gas Leasehold estate.

Each participant will pay or mail to Operator his pro rata share of the consideration for acquiring the location at the time this Letter of Agreement is signed. Also, at the same time, each participant will pay his pro rata share of the cost for drilling the wells to the casing point (as described above).

Payment of all billings and assessments for drilling, completion, workover and other operations are to be paid to Operator at ALE, 7123 Interstate 30, Suite 38, Little Rock, AR 72209 within 15 days after such billing. All amounts owing and not timely paid shall draw interest at the rate of 15% per annum, but in no event to exceed the legal rate of interest.

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SECURITY AGREEMENT:

After production is obtained from a well or well unit, Operator shall have a security interest and lien on each Investor's interest in such well or unit (and Investor hereby grants such security interest to Operator) and Operator shall be entitled (at any time Investor may become delinquent in paying the various amounts as provided for herein) to collect all runs owing for such Investor's interests until such time as all amounts owing by such Investor (as provided for in this Agreement, including interest) have been paid in full, provided that Operator agrees not to exercise such right until after ninety (90) days have expired after the date any such amount (or amounts) become due.

DURATION AND EFFECT:

This Agreement shall remain in full force and effect for at least as long as oil or gas shall be produced from any well on any part of the Leasehold estate(s) (covered by this Agreement) in which the parties hereto have an interest.

No change, modification or alteration of this Agreement shall be valid unless it is in writing, signed by the parties hereto, and no course of dealing between the parties shall be construed to alter the terms hereof. If any part of this Agreement shall be invalid, illegal or inoperative, for any reason, it is the intention of the parties that the remaining parts shall be effective and fully binding.

AGREEMENT:

The signature of Operator and Non-Operator(s) on the designated lines constitutes an agreement between both parties and is contractually binding on both parties as to the terms of this Letter of Agreement. If this Letter correctly reflects your understanding of our agreement, please indicate such by signing this Letter in the space provided and return the signed copy of this Letter to Operator with your check in the appropriate amount for your share of the drilling and lease acquisition costs. You should make a copy of this signed Letter and retain it for your files.

Very truly yours,

ALE, Inc By:.

\_\_\_\_\_  
Otis P Armstrong P.E.  
Proprietor

Mailing address (all payments are to be mailed to Operator at this address:

ALE, Inc. 7123 Interstate  
30, Suite 38, Little  
Rock, AR 72209

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ACCEPTED AND AGREED TO:

I wish to participate to the extent of a \_\_\_ interest in the Working Interest. My check in the amount of \$\_\_\_\_\_ is attached and returned to you with this Letter, to cover my share of the initial lease acquisition and initial drilling costs.

I understand that this Agreement is "binding upon my heirs, administrators, successors and assigns.

I understand, in event Operator decides to make a completion attempt on a second well drilled and I desire to participate and preserve my interest, that it would be necessary for me to pay to Operator an additional amount of \$\_\_\_\_\_ as my share of the estimated costs of completion and equipping), to be paid within 15 days after notice, as set out above.

I hereby represent that I am knowledgeable concerning participation and investment in oil and gas lease prospects and that I am financially able to bear these risks. I understand that this is a highly speculative investment and that I should not participate unless I can afford to lose my entire investment. I have adequate means of providing for my current needs and personal contingencies, and have no need for liquidity in my investments. In making this statement, consideration has been given to whether I can afford a complete loss.

By: \_\_\_\_\_ Date: \_\_\_\_\_  
Investor (Working Interest Owner)

Investor's mailing address for all notice purposes:

\_\_\_\_\_  
\_\_\_\_\_

Telephone: \_\_\_\_\_

Witness: \_\_\_\_\_

|                       | RS-1(First Well) | DC-1 (second Well) |
|-----------------------|------------------|--------------------|
| Program Total         | \$126,520.00     | \$56,260.00        |
| 1/16 Working Interest | \$9,037.14       | \$4,018.57         |
| 1/8 Working Interest  | \$18,074.29      | \$8,037.14         |
| 1/4 Working Interest  | \$36,148.57      | \$16,074.29        |

See PDF documents, RS2Prognosis for Re2.pdf, Review of Riley2.pdf available at [www.oiljetpump.com](http://www.oiljetpump.com) or request by email to [otis-a@oiljetpump.com](mailto:otis-a@oiljetpump.com)

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| AFE capitalized items                            | ./unit | units | unit \$       |                                | ./unit | units | unit \$    |
|--|--------|-------|---------------|--------------------------------|--------|-------|------------|
| 2-7/8EUE drill & prodn pipe                      | 6      | 2376  | 14256         | Consumables & indirects        |        |       |            |
| 5.5"surface csg                                  | 12     | 1210  | 14520         | Diesel                         | 100    | 3     | 300        |
| pipe tongs                                       | 175    | 4     | 700           | gasoline                       | 300    | 3     | 900        |
| pipe wrenches                                    | 46     | 6     | 276           | oils motor & gear              | 25     | 6     | 150        |
| 2-3/8 elevators                                  | 200    | 3     | 600           | Permit fees & Bonds            | 1      | 1600  | 1600       |
| 2-3/8 drill pipe                                 | 8      | 165   | 1320          | Insurance- Workers comp        | 1      | 3500  | 3500       |
| 2-7/8 elevators                                  | 250    | 1     | 250           | Insurance- Equipment           | 1      | 3000  | 3000       |
| 5-1/2 elev.                                      | 340    | 2     | 680           | Transport fuel to site 21 dys  | 12     | 75    | 900        |
| cross-overs & subs                               | 95     | 8     | 760           | workers wages per week         | 3      | 1000  | 3000       |
| 5-1/2 x 3-7/8 BOP                                | 2500   | 1     | 2500          | supervision wages per week     | 3      | 1000  | 3000       |
| power tong H-K w/2-7/8jaws                       | 6599   | 1     | 6599          | dirt work backhoe & diggers    | 3      | 600   | 1800       |
| 3 inch drill collars                             | 8      | 170   | 1360          | mud & mud-chemicals            | 1      | 3200  | 3200       |
| jet pump   | 13450  | 1     | 13450         | jet lube copper pipe dope      | 90     | 1     | 90         |
| packers 2-3/8 EUE conn 2J                        | 1500   | 2     | 3000          | drill bits                     | 850    | 6     | 5100       |
| 23hp gaso 1849                                   | 5000   | 2     | 10000         | lease fee's                    | 8000   | 2     | 16000      |
| rubber hoses                                     | 125    | 7     | 875           | safety gear, gloves boots hats | 500    | 1     | 500        |
| hose connections                                 | 12     | 21    | 252           | mud chemicals test gear        | 223    | 1     | 223        |
| 4x3 mission pump w/10hp dsl                      | 2900   | 1     | 2900          | Hydraulic fluids               | 25     | 15    | 375        |
| mud mixer  | 250    | 2     | 500           | welding gases                  | 100    | 2     | 200        |
| Light tower w/ cords                             | 250    | 1     | 250           | food/lodging                   | 100    | 21    | 2100       |
| e-generator                                      | 400    | 1     | 400           | accountant fee's               | 800    | 1     | 800        |
| 15T Jr Packer line scale                         | 1600   | 1     | 1600          | hydration supplies             | 375    | 1     | 375        |
| hacker rotary table w/drive 6"                   | 750    | 1     | 750           | water for mud                  | 324    | 1     | 324        |
| Kelly bars                                       | 900    | 4     | 3600          | weed control                   | 100    | 1     | 100        |
| 10T swivel                                       | 3400   | 1     | 3400          | cement, surface pipe           | 7000   | 1     | 7000       |
| 2-3/8 swivel 4T                                  | 495    | 1     | 495           | cement, Production pipe        | 7000   | 1     | 7000       |
| travel blocks                                    | 750    | 2     | 1500          | equipment depreciation         | 3000   | 1     | 3000       |
| Failing rig w/ 28ft tower                        | 17000  | 1     | 17000         | rig maintance                  | 2000   | 1     | 2000       |
| 42 ft tower for rig                              | 4500   | 1     | 4500          | contengency                    |        |       | 6500       |
| Wire rope 9/16 ips a/r stl core                  | 600    | 2     | 1200          | SUB                            |        |       | 73037      |
| Guiberson air slip                               | 4500   | 1     | 4500          | Completion                     |        |       |            |
| air compressor                                   | 345    | 3     | 1035          | Well Head                      | 750    | 1     | 750        |
| air tank, hoses & conn's                         | 250    | 1     | 250           | IJ tube 1.25inch x 2500ft      | 5      | 2500  | 12500      |
| hydraulic pumps & drivers                        | 399    | 4     | 1596          | Tank Battery                   | 3      | 2500  | 7500       |
| hydraulic hose coupler                           | 6      | 14    | 84            | Seating Nipple, top set        | 1      | 1975  | 1975       |
| hydraulic hose                                   | 7      | 44    | 308           | dirt work backhoe & diggers    | 1      | 990   | 990        |
| pipe racks                                       | 199    | 4     | 796           | Foundations                    | 1      | 1487  | 1487       |
| 36/24/18" pipe wrench sets                       | 86     | 3     | 258           | contengency                    |        |       | 2800       |
| safety harness & lines                           | 200    | 1     | 200           |                                |        |       | 28002      |
| Total Equipment included by operator and on-site |        |       | <b>118520</b> | Lease Fees                     |        |       | 16000      |
|  |        |       |               | Completion sub                 |        |       | 44002      |
|  |        |       |               | Total w/ reserve               |        |       | 126,520.00 |