

AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
SMITH ENERGY 1986-A PARTNERSHIP

This Agreement of Limited Partnership made and entered into as of the 22nd day of April, 1986, between and among SMITH ENERGY CO., INC., a New York corporation, as Managing General Partner, HOWARD A. SMITH, as Individual General Partner (the Managing General Partner and the Individual General Partner being referred to together as the "General Partners"), and those persons executing this Agreement as Limited Partners (the "Limited Partners") (the General Partners and the Limited Partners are collectively referred to as the "Partners").

Article I -- Formation and Purpose

1.1 The parties hereto agree to join together as partners in a limited partnership (the "Partnership") under the provisions of the New York Uniform Limited Partnership Act.

1.2 The purpose and character of the business of the Partnership shall be to acquire interests in producing oil and gas properties of all types, including Working Interests, production payments, Royalties, Overriding Royalties, and any other non-Working and non-operating interests; to operate such Leases and to produce oil and gas therefrom and to market such production, to dispose of such leases and interests therein, and to engage in or perform any and all acts or activities customary in connection with or incident to the foregoing.

Article II -- Name, Place of Business and Term

2.1 Name of Partnership. The name of the Partnership shall be Smith Energy 1986-A Partnership.

2.2 Principal Place of Business. The principal place of business of the Partnership shall be located at Smith Energy Co., Inc., c/o Howard A. Smith, 174 East 64th Street, New York, NY, or at such other place as the General Partners may from time to time designate in writing delivered to the Limited Partners. In addition, the Partnership may maintain

such offices as the General Partners may deem advisable at any other place or places within the United States.

2.3 Term. The Partnership shall exist for a term ending December 31, 2015, unless earlier dissolved pursuant to the provisions hereof.

2.4 Certificate of Limited Partnership. A Certificate of Limited Partnership shall be recorded in accordance with the New York Uniform Limited Partnership Act, and in each other state in which the Partnership may hereafter establish a place of business.

Article III -- Rights and Duties of General Partners

3.1 The General Partners shall have the full, exclusive and complete discretion in the management and control of the business of the Partnership for the purposes herein stated and shall make all decisions affecting the business of the Partnership.

3.2 Management Powers. The Managing General Partner shall manage and control the affairs of the Partnership and shall use its best efforts to carry out the purposes of the Partnership set forth in Article I, and in connection therewith the powers of the Managing General Partner include, but are not limited to, the power to:

(a) expend the Partnership's capital and profits in furtherance of the Partnership's business;

(b) acquire, develop, manage and operate oil, gas or mineral properties;

(c) produce, save and sell oil, gas or other minerals;

(d) enter into operating, pooling, Farm Out, unitization, gasoline plant, recycling, drilling, services, participation and construction agreements, division and transfer orders, acreage contribution letters, and all other documents or instruments incident to the acquisition, development, management and operation of oil, gas or other mineral properties or to the performance of the General Partners' duties or the exercise of their powers hereunder;

(e) give receipts, releases and discharges;

(f) retain geologists, engineers and other consultants and employees;

(g) purchase insurance, or extend the General Partners' insurance, at the Partnership's expense, to protect Partnership properties and the business of the Partnership against loss and to protect the General Partners against liability to third parties arising out of Partnership activities;

(h) purchase or sell production payments;

(i) cause the Partnership to borrow money from third parties and secure loans with a mortgage or other lien on any or all Partnership properties or production therefrom, provided, however, that a creditor who makes a nonrecourse loan to the Partnership will not be permitted to have or acquire, at any time as a result of making the loan, any direct or indirect interest in the profits, capital or property of the Partnership other than as a secured creditor;

(j) advance and disburse funds for the payment of bills and invoices for equipment, facilities, supplies, materials, lease rentals, royalties, labor, services, transportation, insurance and the like and, in such event, reimburse themselves from the Partnership account for such expenditures;

(k) enter into agreements with other entities pursuant to which such other entity would purchase non-operating interests (such as Net Profits Interests and production payments, among others) burdening the Partnership's Working Interest; and

(l) with the prior written consent of Limited Partners holding more than 50% of the units of limited partnership interest outstanding at any given time, sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets; provided, however, that this provision shall not be interpreted to restrict or limit the power of the Managing General Partner to mortgage, pledge, hypothecate or grant a security interest in, any or all of the Partnership's assets and shall not apply to the final sale of any or all of the Partnership's assets pursuant to the foreclosure of, or other realization upon, any such encumbrance.

3.3 Specific Agreements. Without limiting the generality of Section 3.2, the following contracts are specifically authorized:

(a) Purchase Agreement. The Partnership is authorized to enter into an agreement with Atlantic

Richfield Company and/or Luck Petroleum Corporation acting on behalf of the Partnership for the purchase of the Maco Stewart A and Maco Stewart B Leases.

(b) Operating Agreement. The Partnership is authorized to enter into an Operating Agreement with Luck Petroleum Corporation ("Luck") pursuant to which Luck will act as Operator of any producing wells.

3.4 Management Fees, Expenses.

(a) On or before December 31, 1986, the Managing General Partner shall receive a nonrecurring fee equal to \$2743.65 for each \$75,000 contributed to the capital of the Partnership by the Limited Partners. Such fee shall be charged to the capital accounts of the Limited Partners.

(b) The fee described in Section 3.4(a) is designed to reimburse the Managing General Partner for all costs, expenses and liabilities charged by third parties or incurred by the Managing General Partner in connection with the organization of the Partnership, including legal and accounting costs, and to compensate the Managing General Partner for supervising, receiving and administering Partnership activities during the organizational period.

(c) The Managing General Partner shall also receive a management fee of \$100 per month per producing well commencing with the first month following the acquisition of the Leases. Such fee shall be charged to the Limited Partners in proportion to the Units owned by them on the last day of the month to which the fee is applicable.

(d) Except as provided in Section 3.4(a), the Partnership shall reimburse the General Partners for all expenses incurred by the General Partners on behalf of the Partnership.

3.5 Limitation of Liability. The General Partners shall have no liability to the Limited Partners for losses sustained or liability incurred, except if (a) such loss or liability arises out of any action or inaction of the General Partners, (b) the General Partners have not acted in good faith, (c) such course of conduct was not in the best interests of the Partnership, and (d) such conduct constituted gross negligence or misconduct on the part of the General Partners.

3.6 Indemnification. The General Partners shall be indemnified by the Partnership under the following circumstances and in the manner and to the extent indicated:

(a) In any threatened, pending or completed action, suit or proceeding to which a General Partner was or is a party or is threatened to be made a party by reason of the fact that the General Partner is or was a General Partner (other than an action by or in the right of the Partnership) involving an alleged cause of action for damages arising from the performance of oil or gas activities, including exploration, development, completion or operation or other activities relating to management and disposition of oil and gas properties or production from such properties, the Partnership shall indemnify the General Partner against expenses, including attorney's fees, judgments and amounts paid in settlement actually and reasonably incurred by the General Partner in connection with such action, suit or proceeding if the General Partner acted in good faith and in a manner which the General Partner believed to be in or not opposed to the best interests of the Partnership and provided that the conduct of the General Partner does not constitute gross negligence, willful or wanton misconduct or a breach of the General Partner's fiduciary obligations to the Limited Partners. The termination of any action, suit or proceeding by judgment, order or settlement shall not, of itself, create a presumption that the General Partner did not act in good faith and in a manner which the General Partner reasonably believed to be in or not opposed to the best interests of the Partnership.

(b) In any threatened, pending or completed action or suit by or in the right of the Partnership, to which a General Partner was or is a party or threatened to be made a party, the Partnership will indemnify the General Partner against expenses, including attorney's fees, actually and reasonably incurred by it in connection with the defense or settlement of such action or suit if it acted in good faith and in a manner it reasonably believed to be in or not opposed to the best interests of the Partnership, except that no indemnification shall be made in respect of any claim, issue or matter as to which the General Partner shall have been adjudged to be liable for negligence, misconduct or breach of fiduciary obligation in the performance of its duty to the Partnership unless and only to the extent that the court in which such action or suit was brought shall determine upon application, that, despite the adjudication of liability, but in view of all the circumstances of the case, the General Partner is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

(c) To the extent a General Partner has been successful on the merits or otherwise in defense of any

action, suit or proceeding referred to in subparagraph (a) or (b) above, or in defense of any claim, issue or matter therein, the Partnership shall indemnify the General Partner against the expenses, including attorney's fees, actually and reasonably incurred by it in connection therewith.

(d) Any indemnification under subparagraph (a) or (b) above, unless ordered by a court, shall be made by the Partnership only as authorized in the specific case and only upon determination by independent legal counsel in a written opinion that indemnification of a General Partner is proper in the circumstances because the General Partner has met the applicable standard of conduct set forth in subparagraphs (a) and (b) above.

(e) The indemnification of a General Partner shall be limited to and recoverable only out of the assets of the Partnership.

3.7 Other Obligations of General Partners. The General Partners, at the expense of the Partnership, will arrange for the maintenance of records and accounts for the Partnership and the preparation and filing of all reports to regulatory agencies and tax returns for the Partnership.

Article IV -- Rights and Obligations of Limited Partners

4.1 No Limited Partner shall take part in the management of the business or transact any business in the name of the Partnership. In addition, no Limited Partner shall have the power to sign for or to bind the Partnership to any agreement or document.

4.2 No Limited Partner shall be personally liable for any of the debts of the Partnership or for any of the losses thereof beyond the amount committed by such Limited Partner to the capital of the Partnership and his share of the undistributed profits therefor.

Article V -- Capital Contributions

5.1 Individual General Partner. The Individual General Partner will contribute 1.2903% of the capital of the Partnership and will be charged and credited with 1.2903% of the Partnership's cost and revenues.

5.2 Limited Partners. The interests of the Limited Partners in the Partnership shall be divided into undivided equal parts, each representing a capital contribution of

\$75,000 (the "Units"). The General Partners, at their discretion, may accept subscriptions for fractional Units. Upon execution and delivery of a Subscription Agreement to the Partnership, which has been accepted by the General Partners, each Limited Partner shall make an investment in the Partnership by contributing the entire purchase price of his Unit(s).

5.3 Interest and Withdrawals. No partner shall be entitled to any interest or other return with respect to his capital contribution except as provided in this Agreement. Except as set forth herein, no partner shall be obligated to make any contribution to the capital of the Limited Partnership and no partner shall have any right to demand a return of any contribution to the capital of the Limited Partnership made by him.

5.4 Capital Accounts. An individual capital account shall be established and maintained for each partner. A partner's capital account shall be initially credited with his contribution to the capital of the Partnership made pursuant to this Article V. Thereafter, it shall be credited or charged as provided in Articles III and VI and shall otherwise appropriately reflect the transactions of the Partnership and the Partners.

Article VI -- Allocation of Income, Loss, Expenses, Deductions and Credits

6.1 Except as otherwise provided, with respect to each other, the Limited Partners shall share those costs, expenses, revenues, income, gains and losses and credits of the Partnership in proportion to the number of Units owned by them.

6.2 All deductions and credits shall be allocated to the partner or partners who have been charged with the expenditure giving rise to such deductions or credits.

Article VII -- Distribution of Funds

7.1 All funds of the Partnership, except funds which in their discretion the General Partners determine shall be retained by the Partnership in reasonable reserves for working capital, contingencies, and debt obligations shall be distributed to the Partners (and charged to their respective capital accounts) in accordance with Section 6.1 for the sharing of Partnership income, gains, losses and deductions at the time of distribution.

Article VIII -- Transfer of Limited Partner's Interest

8.1 A Limited Partner may, with the consent of the General Partners (which consent may be withheld in the sole discretion of the General Partners), transfer all or any part of his interest in the Partnership provided that: (i) a written instrument or transfer in form reasonably satisfactory to the General Partners is executed and filed with the Partnership; (ii) payment is made to the Partnership of its reasonable expenses in connection with the transfer (or waiver thereof is made by the General Partners); and (iii) the General Partners have received evidence satisfactory to them, that the transferee (except transferees by gift, bequest, inheritance or operation of law) meets the suitability standards applicable to an original investor.

8.2 No transferee of all or any part of a Limited Partner's interest shall have the right to become a substituted Limited Partner unless (i) the General Partners consent thereto in writing; (ii) such transferee has executed and delivered to the General Partners an instrument in form reasonably satisfactory to the General Partners adopting this Agreement and agreeing to be bound by all of its provisions; and (iii) payment is made to the Partnership of its expenses in connection therewith which may include without limitation the cost of preparing and filing an amended limited partnership certificate or certificates.

8.3 Notwithstanding the foregoing, no transfer of an interest in the Partnership shall be effective if, by virtue of the transfer, the Partnership would be terminated for Federal income tax purposes.

Article IX -- Death or Legal Incapacity of Limited Partner

The death or legal incapacity of any one or more of the Limited Partners shall not terminate the Partnership, but his or their rights to receive shares of the net profits, losses and his or their obligations under this Agreement shall, on the happening of such an event, devolve on his or their personal representative, subject to the terms and conditions of this Agreement; and the Partnership shall continue as a limited partnership. The estate of the Limited Partner shall be liable for all his obligations as a Limited Partner. In no event, however, shall a personal representative or successor become a substituted Limited Partner unless the requirements of Article VIII are satisfied.

Article X -- Dissolution and Termination

10.1 Dissolution. The Limited Partnership shall be dissolved upon the occurrence of any of the following events:

(a) The death, incompetency, dissolution, liquidation, removal or adjudication of bankruptcy or insolvency of either General Partner;

(b) The expiration of the term of the Partnership as provided in Section 2.3 hereof;

(c) The sale or other disposition of, the abandonment of or the expiration of all the interests and properties acquired by the Partnership;

(d) By vote of at least a majority in interest of the Limited Partners to dissolve pursuant to Article XI; or

(e) The occurrence of any other event causing the dissolution of the Partnership under the laws of the State of New York.

10.2 Subject to the provisions of Section 10.3, upon dissolution, the Partnership shall be terminated and the assets of the Partnership shall be distributed as follows:

(a) all of the Partnership's debts and liabilities to persons other than partners shall be paid and discharged;

(b) all of the Partnership's debts and liabilities to Partners shall be paid and discharged;

(c) the General Partners shall ascertain the fair market value of all Partnership property remaining unsold by appraisal or other reasonable means, and each Partner's capital account shall be adjusted as if such remaining Partnership property were sold at such fair market values, and the revenues, income, gain, losses, costs and deductions realized thereby had been allocated to the Partners in accordance with Article VI hereof; and

(d) the balance of the assets of the Limited Partnership shall be distributed among the Individual General Partner and the Limited Partners in proportion to their capital accounts.

Upon termination, each Limited Partner shall look solely to the assets of the Partnership for the return of his cash contribution, and if the Partnership property

remaining after the payment or discharge of the debts and liabilities of the Partnership is insufficient to return the cash contributions of each Limited Partner, such Limited Partner shall have no recourse against the General Partners or any other Limited Partner. The winding up of the affairs of the Partnership and the distribution of its assets shall be conducted exclusively by the General Partners, who are hereby authorized to do any and all acts and things authorized by law for these purposes. In the event of dissolution and winding up of the Partnership caused by the dissolution or bankruptcy of the General Partners, the winding up of the affairs of the Partnership and the distribution of its assets shall be conducted by such person(s) or entity as may be selected by a vote of the majority in interest of the Partnership, which person(s) or entity is hereby authorized to do any and all acts and things authorized by law for these purposes.

10.3 Election to Continue the Partnership. Upon the occurrence of any of the events set forth in subparagraphs (a) or (e) of Section 10.1 (the "Terminating Event"), all the Limited Partners may, within 30 days after the occurrence of such event, elect to continue the Partnership and upon such election the Partnership shall continue as a successor limited partnership pursuant to this Partnership Agreement; provided, however, that the Limited Partners may not elect to continue the Partnership unless the General Partners also elect to continue the Partnership or, if there is then no General Partner, a majority in interest of the Limited Partners, pursuant and subject to Article XI, then elect a new General Partner who agrees to act as substitute General Partner and continue the Partnership. If such a substitute General Partner is so selected and accepts, the Individual General Partner, or the successor in interest of the deceased Individual General Partner, shall become a Limited Partner with the same share of profits or losses of the Partnership as the Individual General Partner possessed before the Terminating Event and shall have all the rights of a Limited Partner. Subject to other written agreements and exceptions accepted by all the Limited Partners, the substitute General Partner shall assume from and after the date of substitution and upon becoming a party to this Partnership Agreement, all the rights, powers and obligations of a General Partner under this Partnership Agreement.

Article XI -- Amendments, Removal of General Partner

11.1 The General Partners may, and at the request of Limited Partners owning Units representing 50% or more of the Units owned by all Limited Partners shall, submit to all

the Partners the text of any proposal to (a) amend this Agreement, (b) dissolve and terminate the Partnership, (c) remove a General Partner and substitute a new General Partner, (d) approve or disapprove the sale of all or substantially all the assets of the Partnership, or (e) cancel any contract between the Partnership and a General Partner, without penalty to the Partnership, upon 60 days' written notice to the General Partners, together with a statement of the purpose of any such proposal. The General Partners may include in any submission their view as to the proposal. Subject to Section 11.2, any such proposal shall be adopted if, within 30 days after the mailing of such proposal to all Partners, the General Partners shall have received written approval thereof from a majority in interest of the Limited Partners except that no proposal may without the written approval of all the Partners (i) increase the liability of the Partners; (ii) alter the allocation of income, gain, loss, deductions and credits under Article VI, or the distribution of funds under Article VII; (iii) change the capital contributions required of Partners under this Agreement; (iv) enlarge the liability of the General Partners to Limited Partners; (v) amend this Article XI; or (vi) change the provisions relating to the dissolution and termination of the Partnership. The date of adoption of such proposal shall be the date on which the General Partners shall have received the requisite written approvals. Any proposal which is not adopted may be resubmitted. In the event any proposal is not adopted, any written approval received thereto shall become void and shall not be effective with respect to any submission of such proposal.

11.2 Notwithstanding the foregoing, any rights of a majority in interest of the Limited Partners under Section 11.1 shall not come into existence or be effective in any manner unless and until (a) either (i) a court of competent jurisdiction shall have determined, in an action for declaratory judgment or similar relief brought on behalf of the Limited Partners, that neither the grant nor the exercise of the powers described in Section 11.1 will result in the loss of any Limited Partner's limited liability, or (ii) counsel for the Limited Partners shall have delivered to the Partnership an opinion to the same effect; and (b) either (i) a favorable ruling shall have been received by the Partnership from the Internal Revenue Service to the effect that neither the grant nor the exercise of the powers described in Section 11.1 will adversely affect the tax status of the Partnership or any of the Partners, or (iii) counsel for the Limited Partners shall have delivered to the Partnership an opinion to the same effect. Counsel for the Limited Part-

ners shall be other than counsel for the General Partners and such counsel must be acceptable to a majority in interest of the Limited Partners.

11.3 In the event a General Partner shall be removed under Section 11.1 and a successor General Partner shall be appointed, the General Partner shall convert his share of the capital, profits and losses of the Partnership into a limited partnership interest in the Partnership.

Article XII -- Independent Ventures

12.1 Any Partner, including a General Partner, may engage in or possess an interest in other business ventures and transactions of every type and description, independently or with others, including transactions involving oil and gas prospects or interests that may be in the vicinity of the Well Sites to be acquired by the Partnership. Neither the Partnership nor any partner will, by virtue of this Agreement, have any right, title or interest in or to such other ventures or the income or benefits derived therefrom.

Article XIII -- Miscellaneous Provisions

13.1 Power of Attorney. Whenever the General Partners may from time to time so request, each Partner shall execute, acknowledge or verify, and deliver one or more Certificates of Limited Partnership or amended Certificates containing such accurate statements as the General Partners may deem appropriate and any and all other written instruments that the General Partners may deem appropriate to carry out the purposes and the intent of this Agreement. Notwithstanding the foregoing provisions, each of the Partners irrevocably constitutes and appoints the Individual General Partner as his true and lawful attorney-in-fact with full power of substitution, for all purposes relating to the affairs of the Partnership, granting unto it full power and authority in his name, place and stead from time to time to make, execute, sign, acknowledge or verify, and if necessary file, from time to time one or more amended Certificates of Limited Partnership to be filed in appropriate public offices; all instruments which effect a modification or amendment of the Partnership in accordance with this Agreement; all documents which may be required to effect the dissolution of the Partnership under the terms of this Agreement and the cancellation of its Certificate of Limited Partnership, as amended from time to time; all fictitious or assumed name certificates required or permitted by law to be

filed on behalf of the Partnership and which are not inconsistent with this Agreement; and such documents as are necessary to add Limited Partners in accordance with this Agreement or any amendments hereto. The foregoing power of attorney is coupled with an interest and shall be irrevocable and survive the death, incapacity, bankruptcy or dissolution of each Partner.

13.2 Notices. Any notice, payment, demand or communication required or permitted to be given by any provision of this Limited Partnership Agreement shall be deemed to have been sufficiently given or served for all purposes if delivered personally to the party or to an officer of the party to whom the same is directed or if sent by registered or certified mail, postage and charges prepaid addressed as follows:

If to General Partners:

c/o Howard A. Smith
174 East 64th Street
New York, New York 10021

If to a Limited Partner, at such Limited Partner's address for purposes of notice which is set forth on his Subscription Agreement and Counterpart Signature Page. Any such notice shall be deemed to be given on the date on which the same was deposited in a regularly maintained receptacle for the deposit of United States mail, addressed and sent as aforesaid.

13.3 Books of Accounts and Records. The Partnership's books and records and the Certificate of Limited Partnership shall be maintained at the principal office of the Partnership and each Partner shall have access thereto at all reasonable times. The books and records shall be kept in accordance with generally accepted accounting principles applied in a consistent manner by the Limited Partnership and shall reflect all transactions and be appropriate and adequate for the business of the Limited Partnership. An annual statement shall be transmitted to each Limited Partner indicating his share of the Limited Partnership profit or loss for such year for Federal income tax purposes. The Limited Partnership shall adopt a calendar year basis for Federal income tax purposes.

13.4 Application of New York Law. This Agreement, and the application or interpretation thereof, shall be governed by its terms and by the laws of the State of New York applicable to transactions to be performed therein.

13.5 Execution in Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All counterparts shall be construed together and shall constitute one agreement, notwithstanding that all parties are not signatories on the same counterpart.

13.6 Assignability. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the successors and assigns of the respective parties hereto.

Article XIV -- Risk Factors

The Limited Partners have been advised and are aware that the business of the Partnership may involve substantial risk factors including, without limitation, the following:

(a) While the General Partners anticipate that the business of the Partnership will be profitable and will generate sufficient income to pay operating expenses as well as a return to the Limited Partners, no assurance can be given to such effect. The General Partners' expectations are based solely upon estimates, and in the event income from the Partnership's activities is insufficient to meet the Partnership's cash requirements, the monies contributed by the Limited Partners to the Partnership may be lost in their entirety. The Limited Partners will acquire Limited Partnership Interests in the Partnership and will not participate either in increases or decreases in the General Partners' net worth. Nevertheless, because the General Partners are responsible for the conduct of the business and affairs of the Partnership and are obligated to provide certain funds in connection with Partnership operations, a material adverse change in the financial condition of a General Partner could have an adverse affect on the Partnership operations.

(b) Interests in the Limited Partnership have not been registered with the Securities and Exchange Commission or with any state securities commission, nor is such registration contemplated. No resale or transfer of interests will be permitted except in accordance with the applicable provisions of the Securities Act and any applicable state securities laws. Furthermore, it is not expected that any trading market will develop for the resale of such interests and there is no assurance that Limited Partners will be

able to dispose of their interests. In addition, all sales or transfer of such interests are subject to the prior consent of the General Partners.

(c) It is contemplated that certain tax benefits will result to the Partnership, and hence to the Partners, by reason of deductions available under certain provisions of the Internal Revenue Code of 1954 relative to intangible drilling and development costs, depreciation, depletion, investment tax credit and ordinary and necessary business expenses. While the General Partners believe that such tax benefits will be available and that the Partnership will be taxable as a partnership and not as an association taxable as a corporation, no assurance can be given that the Internal Revenue Service (the "Service") may not deny any or all of the anticipated tax benefits or that any appeal of such denial would be successful in whole or in part. In addition, certain of these items may trigger or increase a partner's liability for minimum tax on certain tax preference items, or be recaptured as ordinary income upon the sale or disposition by the Partnership of its assets or by a Partner of his interest in the Partnership. Furthermore, the value of some of these tax benefits in absolute terms may be diminished because of the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982, which lowered tax rates, imposed lower tax ceilings, limited investment tax credit allowances and provided for a new alternative minimum tax. Moreover, the Internal Revenue Service has recently issued proposed regulations (i) relating to the so-called "substantial economic effect" test applied in connection with determining whether the Service will respect partnership allocations of loss, deduction or credit, generally, and, in particular, loss or deduction attributable, in whole or in part, to percentage depletion, (ii) relating to the ability of a limited partner to deduct his otherwise deductible proportionate share of partnership losses based upon whether the limited partner is "at risk" with respect to such loss, (iii) requiring a limited partner to make an annual election on his individual income tax return in order to claim percentage depletion under the so-called "small producer exemption" of (domestic) natural gas and (iv) pertaining to whether an oil and gas property was "proven" when acquired by the partnership, in which case percentage depletion under the small producer exemption would not be available on income from such property. In addition, pursuant to regulations to be

issued, the amount of cost recovery deduction for tangible personal property will be proportionately reduced for a short taxable year and increased in the amount of such reduction for subsequent years and a recent revision of the Internal Revenue Code has reduced the benefit a corporate taxpayer may derive from certain so-called "preference items" for purposes of the regular income tax (as contrasted with the alternate minimum tax). Finally, under the recently enacted Deficit Reduction Tax Act of 1984, the possibility exists that amounts allocable to the Individual General partner might be characterized as a capitalized syndication cost or as an organizational cost (to the extent such treatment appears proper) thereby increasing the taxable income of the Limited Partners. The Partnership will not obtain an opinion of counsel as to the foregoing issues or the tax impact on the Partnership of such regulations and revision, and any such opinion, if obtained, would not be binding upon the Service. Disallowance of any deductions or reallocation of Partnership items (for example, on the grounds that some or all of the provisions of the relevant partnership agreements which allocate certain items of loss deduction or credit are ineffective; that an item constitutes a nondeductible distribution, or syndication expense, or a capital expenditure which must be amortized) could adversely affect the Limited Partners and it is contemplated that each Limited Partner has consulted his own tax advisor with regard to the tax consequences arising in connection with his acquisition of an interest in the Partnership.

(d) It is not believed that the Limited Partners will be liable for the Partnership's debts under the provisions of the New York Partnership Law. However, there is no authoritative precedent on the issue of whether the existence and/or exercise by the Limited Partners of certain rights contained in this Agreement may have the effect of subjecting Limited Partners to liability as to General Partners. Hence, there can be no assurance that the existence of these controls over the activities of the Partnership, or the exercise thereof will not result in the loss by any or all of the Limited Partners of their status as Limited Partners, so that each Limited Partner might become liable to recourse creditors of the Partnership for Partnership obligations to the same extent as, and jointly and severally with the General Partners. The Partnership will not receive an opinion of counsel as to the above issues under New York law. Furthermore, even though a Limited Partner maintains his limited liability, he may

be liable to creditors of the Partnership for amounts distributed to him by the Partnership, together with interest thereon, which are deemed to constitute a return of Partnership capital or which are determined to be distributed wrongfully.

The Limited Partners also acknowledge that they have been advised and are aware of the following risk factors specifically applicable to the oil and gas industry:

(e) Competition. The production of oil and gas is a highly competitive undertaking. The Partnership will be competing with companies possessing more extensive experience, larger staffs and greater financial resources. There is also competition among operators for equipment, tubular goods and crews.

(f) Markets. The availability of a market for the oil or gas of the Partnership and the price at which such production may be sold will depend upon numerous factors, some of which are beyond the control of the General Partners, including the availability and proximity of adequate pipeline or other transportation facilities and the amount of domestic production, available foreign imports and general market demand.

(g) Regulation. The Partnership's production will be subject to regulation by state conservation agencies. The price received for natural gas production is governed by the Natural Gas Policy Act of 1978. Regulation and taxation of the production, transportation and sale of any oil or gas found by the Partnership, and Federal price controls on gas and the windfall profits tax on oil in particular, will have a significant effect on operating results of the Partnership.

(h) Environmental and Operating Risks. Risks such as blow-outs, unexpected geological formations, pressures or other unforeseen conditions are involved in drilling wells. The Partnership will attempt to secure insurance coverage against liabilities arising out of drilling and operations. Nevertheless, the Partnership still may be subject to liability for third parties or to governmental entities for blow-outs and for other damages or extraordinary losses which cannot be insured against or against which the General Partners and a third party operator may elect not to insure, due either to prohibitive premium costs or other reasons. Therefore, the Partnership may incur substantial liabilities, the discharge of which could

have a material adverse impact on the Limited Partners' interests in the Partnership. In addition, existing and future governmental regulations relating to environmental matters may also increase the Partnership's cost of doing business or require cessation of operations in certain areas.

(i) Tax Laws Subject to Change. There can be no assurance that the tax treatment presently available with respect to oil and gas production will not be modified or eliminated by legislative, judicial or administrative action. Legislation has been enacted in the past which curtailed certain tax benefits previously available to investors in programs such as the Partnership, and it is possible that new legislation will be proposed which, if enacted, would further reduce such benefits. Even if such additional legislation were enacted, or if interpretations were promulgated which could result in tax treatment different from that prevailing on the date of this Agreement, the Partnership nonetheless will expend the subscriptions of the Limited Partners and conduct the Partnership's business, affairs and operations as planned.

(j) Non-Liquid Partnership Assets. If the partnership were to be liquidated because it was uneconomic to continue its operations or the Partnership had suffered financial reverses, and its properties and assets were distributed in kind to the Limited Partners, a Limited Partner retaining such a distributed interest could become subject to unlimited liability and would hold an undivided interest in widely dispersed assets which could not be readily sold and for which it would be difficult to find a competent operator. Limited Partners may find it advisable to arrange for another operator, to instruct such operator to obtain insurance on the properties held or to dispose of their properties, all of which may be particularly difficult when properties or investors are widely dispersed.

(k) Conflicts of Interest. The Individual General Partner may be an investor or a general or limited partner in other drilling programs which may be conducting operations in the same region as the Partnership. The Individual General Partner plans to form additional programs to engage in activities similar to those of the Partnership. As a consequence of all these facts, conflicts of interest among the Partnership and the Individual General Partner or such other drilling programs may arise when the Individual General

Partner must decide whether certain oil and gas properties should be retained or acquired for its own account or transferred to or acquired by the Partnership or by another program formed by the Individual General Partner.

Article XV -- Representations, Warranties and Covenants of General Partners

The General Partners hereby represent, warrant and covenant as follows:

(a) The Individual General Partner is an individual over the age of eighteen with full legal power to enter into this Agreement and to perform the transactions contemplated herein. The Managing General Partner is a corporation duly organized and validly existing in good standing under the laws of the State of New York. The execution and delivery of this Agreement, the consummation of the transactions contemplated hereby and the fulfillment of and compliance with the terms, conditions and provisions hereof will not conflict with or result in a breach of any restriction on or affecting the General Partners or any of the assets of the General Partners or the Partnership, or to which the General Partners or the Partnership are parties, or by which they or any of their assets may be bound or constitute (with or without the giving of notice or the passage of time, or both) a default under any such instrument or accelerate the maturity of or otherwise modify any obligation of the General Partners of the Partnership.

(b) They will not take any action or omit to take any action whatsoever which will have an adverse tax effect upon the Limited Partners. Notwithstanding the foregoing, the General Partners will not be responsible for adverse tax effects resulting from their reliance upon written opinions of counsel or accountants, or from acts or omissions in good faith.

(c) There are no material acts, suits or proceedings pending or, to the knowledge of the General Partners, threatened as to which the Partnership or a General Partner is or may be a party before any court or governmental instrumentality, agency or body, foreign or domestic or any arbitration tribunal.

(d) The admission of any Limited Partner to the Partnership will not result in the breach of, or constitute a default under, the terms of any agreement, application or commitment to which the Partnership or a General partner is or will be a party or under which any of them is or may be entitled to any right or benefit or to which either of them may be subject.

(e) No representation or warranty in this Agreement, or in any exhibit, written statement, certificate or document furnished to or to be furnished by the Partnership or the General Partners pursuant to this Agreement or in connection with the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading.

(f) Promptly following the execution of this Agreement or any amendment hereof, the General Partners shall cause this Agreement or any further amendment, or a duly executed certificate hereof or thereof, to be duly filed in the proper governmental offices in the State of New York, and, if required, in any other state, and shall do all such other acts and execute and file such other documents as shall be necessary to limit the liability of any Limited Partner or all Limited Partners to their respective capital contributions and to vest or confirm in the Partnership the power to carry on the business of the Partnership as herein contemplated in the State of New York and in any other state where such is necessary.

(g) They will not create any additional interests in the Partnership for General Partners or Limited Partners, except with the written consent of a majority in interest of the Limited Partners.

(h) The Individual General Partner has a total net worth of at least \$250,000 exclusive of any interest he may have in the Partnership or any other limited partnership.

(i) They will not allow the transfer from the General Partners or Limited Partners of an interest in profits and capital of the Partnership equal to 50% or more thereof during any 12-month period, which transfer would constitute a termination of the Partnership under the Internal Revenue Code of 1954.

(j) They will cause the Partnership to timely pay all of its debts and obligations from Partnership funds.

Article XVI -- Investment Representation

Each person who becomes a Limited Partner does hereby represent and warrant by the signing of a counterpart of this Agreement that (a) the interest in the Partnership acquired by him was acquired for investment and not for resale or distribution, (b) he is qualified by his personal experience to analyze the risks and the advantages and disadvantages of an investment in such interest, and (c) he has not relied on the advice of the General Partners in making his investment decision.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year first written above.

GENERAL PARTNERS:

Howard A. Smith
Howard A. Smith

SMITH ENERGY CO., INC.

By: Howard A. Smith
Howard A. Smith, President

LIMITED PARTNERS

Howard A. Smith

(Signature of Limited Partner)

HOWARD A. SMITH

(Name of Limited Partner-printed)

Cliff Weinstein

(Signature of Limited Partner)

CLIFF WEINSTEIN

(Name of Limited Partner-printed)

Daniel Jeffrey Meltzer

(Signature of Limited Partner)

Daniel Jeffrey Meltzer

(Name of Limited Partner-printed)

Robert K. Berenson

(Signature of Limited Partner)

ROBERT K. BERENSON FOR
RDJ. Co

(Name of Limited Partner-printed)

Seymour Weinstein

(Signature of Limited Partner)

SEYMOUR WEINSTEIN

(Name of Limited Partner-printed)

Jeffrey L. Doppelt

(Signature of Limited Partner)

Jeffrey L. Doppelt

(Name of Limited Partner-printed)


Estate of Abraham Kamber, Dec'd.

(Signature of Limited Partner)

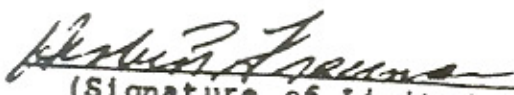
ESTATE of Abraham Kamber, Dec'd.

(Name of Limited Partner-printed)

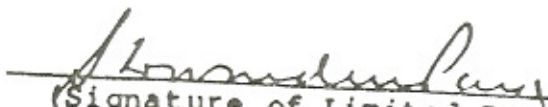
LIMITED PARTNERS (cont.)


(Signature of Limited Partner)


Imre J. Rosenthal
(Name of Limited Partner-printed)


(Signature of Limited Partner)

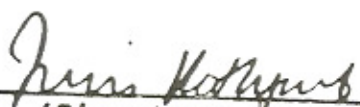
IRENE FREEMAN
HERBERT FREEMAN
(Name of Limited Partner-printed)


(Signature of Limited Partner)

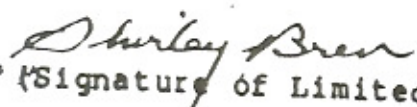
HOWARD M. PACK
(Name of Limited Partner-printed)


(Signature of Limited Partner)

ALEXANDER ABRAHAM
(Name of Limited Partner-printed)


(Signature of Limited Partner)

Irvin Rothberg
(Name of Limited Partner-printed)


(Signature of Limited Partner)

SHIRLEY BREN
(Name of Limited Partner-printed)

LIMITED PARTNERS (cont.)

LUCK PETROLEUM CORPORATION

James R. Secretary
(Signature of Limited Partner)

LUCK PETROLEUM CORPORATION

(Name of Limited Partner-printed)

Richard A. Maltz
(Signature of Limited Partner)

Richard A. Matist

(Name of Limited Partner-printed)

SMITH ENERGY CO INC PENSION PLAN
(Printed Name)

H. G. Smith Trust
Signature

(Signature of Limited Partner)

Peter B. Levitt

STEVEN M LEBY

(Name of Limited Partner-printed)