

**STATE OF NEW MEXICO  
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES  
OIL CONSERVATION DIVISION**

**APPLICATION OF LCX ENERGY, LLC  
FOR APPROVAL OF A UNIT AGREEMENT,  
EDDY COUNTY, NEW MEXICO**

**CASE NO. 13803**

**AFFIDAVIT OF DAVE KVASNICKA**

STATE OF TEXAS        }  
                             }  
COUNTY OF MIDLAND    }

I, Dave Kvasnicka, being first duly sworn on oath, states as follows:

1. My name is Dave Kvasnicka. I reside in Midland, Texas. I am the petroleum geologist employed by LCX Energy, LLC ("LCX") who is responsible for the formation of the proposed Big Dog State Exploratory Unit ("the Unit") comprised of 1920 acres, more or less, of State of New Mexico lands situated in Eddy County, New Mexico. The horizontal limits of said Unit Area are described as follows:

**Township 18 South, Range 23 East, N.M.P.M.**

Section 16: All  
Section 20: All  
Section 21: All

2. LCX, the designated Unit Operator in the Big Dog State Exploratory Unit Agreement, proposes the formation of the unit for the purpose of defining the upper margin of gas production from a series of carbonate (dolomite) units, which occur near the base of the Abo (dolomite) Formation and the top of the Wolfcamp (limestone/shale) Formation.

3. The surface location of the first proposed unit well bore is found in Section 20, T18S, R23E at the following coordinates: 660' FNL and 1880' FWL. The proposed bottom hole location (BHL) will be located at 660' FSL and 1880' FWL of Section 20. It is further proposed that the vertical hole shall have a total depth of approximately 4600 feet below the surface location, or a depth sufficient to provide a minimum of 75 feet below the deepest gas show. Upon complete evaluation by electric logging, the vertical well bore shall be plugged back with cement in preparation for the initiation of lateral (horizontal) drilling operations. The productive interval is expected between 4400 feet and 4550 feet below the surface location. Based on log evaluation and gas shows encountered during vertical drilling, a target horizon will be identified. Utilizing maps of structure and gross interval thickness, a lateral plot will be projected to the

proposed BHL. The projected lateral is expected to have a horizontal length of approximately 4000 feet.

Upon cessation of lateral drilling activities, casing will be run across the length of the lateral and cemented into place. The perforations will be selected on the basis of gas shows across the lateral well bore and will be ordered to accommodate a multi-stage fracture stimulation of the reservoir. The estimated costs for this well is \$2,400,000.

4. Attachment A to this Affidavit is a copy of the Unit Agreement for the Big Dog State Exploratory Unit. This agreement utilizes the New Mexico State Land Office State/Fee Unit Agreement form.

5. Attachment B is the plat to the Unit Agreement that shows the unit area for the Big Dog State Exploratory Unit and the location of the initial unit test well.

6. Attachment C to this Affidavit is a copy of Schedule B to the Unit Agreement for the Big Dog State Exploratory Unit that identifies the working interest ownership in the Unit Area. One hundred percent (100%) of the working interest in the Unit Area is committed to the unit.

7. The schedule under Attachment C also identifies the royalty interest in the Unit Area. One hundred percent to the royalty interest is owned by the State of New Mexico.

8. Attachment D to this Affidavit is a letter from the New Mexico Commissioner of Public Lands giving preliminary approval of the State Land Office to the proposed Big Dog State Exploratory Unit.

9. Attachment E (1 & 2) is a series of Structure Maps of the Upper Wolfcamp pay zone. The Big Dog State Exploratory Unit (as proposed) seeks to promote the orderly development of gas resources as found within a carbonate package as observed in the Mesa Antelope Federal No. 1 (at a depth of between 4550' and 4646' TVD), found on the referenced stratigraphic cross-section and located 1980' FSL & 1980' FWL of Section 22, T 18S, R23E. The gross thickness of this interval suggests a build-up of the package, which has not been adequately defined.

10. Attachment F, is Cross Section A-A', and shows this concept at the proposed Big Dog location. It can be shown in the stratigraphic cross-section, that gas production in the Abo/Wolfcamp interval originates from relatively thin carbonates, which develop along the margin of shallow (back-reef) waters associated with the Abo Reef complex found to the east/southeast of the proposed unit. These carbonate units consist of a dolomitic packstone, which is locally re-crystallized to exhibit a sucrosic texture. The reservoir quality of the unit is largely dependent on the interstitial porosity associated with the re-crystallized carbonate.

As observed in the cross-section provided, these thin lenses of dolomite pinch out near the paleo-shoreline. The subtraction of section from lower Abo occurs over time, resulting in a

westward-prograding series of potential reservoirs as each carbonate unit approaches its depositional terminus.

11. The unit covers an area that can be reasonably developed under a unit plan.

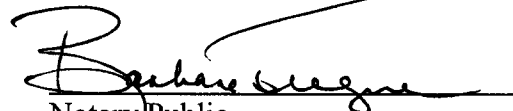
12. This is a high risk project, but if the initial unit well is successful, additional wells will be drilled in the Unit Area. Accordingly, approval of the Unit Agreement will result in the efficient recovery of hydrocarbons.

13. Approval of the Big Dog State Exploratory Unit and the development of the Unit Area pursuant to a unit plan is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

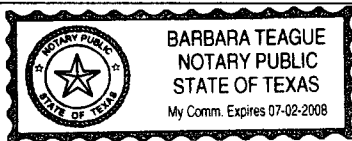
FURTHER AFFIANT SAYETH NOT.

  
DAVE KVASNICKA

SUBSCRIBED AND SWORN before me this 27<sup>th</sup> day of November, 2006.

  
Notary Public

My Commission Expires:



UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
BIG DOG STATE EXPLORATORY UNIT AREA  
EDDY COUNTY, NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 1st day of November 2006, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Chap. 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N.M. Statutes 1978 Annotated), to consent to and approve the development or operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. N. M. Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Big Dog State Exploratory Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 18 South, Range 23 East

Section 16:	All
Section 20:	All
Section 21:	All

Containing 1920 total acres, more or less, in Eddy County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibit "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: LCX Energy, LLC, whose address is 110 N. Marienfeld, Suite 200, Midland, Texas 79701 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their

respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy-five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it

being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to 4,600' TVD (True Vertical Depth) and 8,700' MD (Measured Depth) sufficient to encounter the top of the Wolfcamp formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 4,600 feet (TVD). Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.



9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES:

Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees or record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated), of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and , provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this agreement

unless at the expiration of five (5) years after the first day of the month following the effective date of this agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: The respective lease owners in accordance with the terms of their leases shall pay all rentals due to the State of New Mexico.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty share in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practices; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INsofar AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of

said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the fixed term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking

operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the fixed term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photo static, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in 5 (five) years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has

been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to the Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Division, and in conformity with all applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceedings.

20. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such

tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

22. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

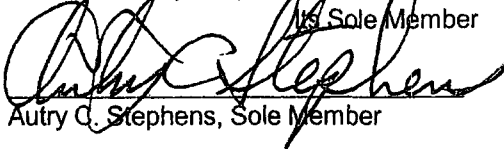
23. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR

Date 11-06-2006

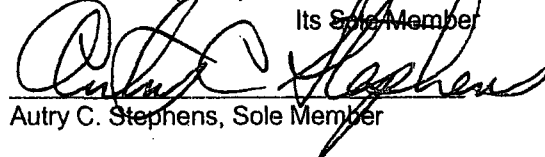
LCX ENERGY, LLC, BY: LCX ACQUISITIONS, LLC

  
Autry C. Stephens, Sole Member

WORKING INTEREST OWNERS

Date 11-06-2006

LCX ENERGY, LLC, BY: LCX ACQUISITIONS, LLC

  
Autry C. Stephens, Sole Member

CAPSTONE OIL AND GAS COMPANY, LP

Date \_\_\_\_\_

\_\_\_\_\_  
Dale Douglas, President of Capstone Investments, Inc.  
Its General Partner

PARALLEL PETROLEUM CORPORATION

Date \_\_\_\_\_

\_\_\_\_\_  
John S. Rutherford, Vice President

CMW INTERESTS, INC.

Date \_\_\_\_\_

\_\_\_\_\_  
Mark Wheeler, President

ELGER EXPLORATION, INC.

Date \_\_\_\_\_

\_\_\_\_\_  
Jerry Elger, President



ACKNOWLEDGMENTS

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND   §

This instrument was acknowledged before me on 6<sup>th</sup> day of November, 2006 by Autry C. Stephens, as the Sole Member of LCX Acquisitions, LLC, in its capacity as Sole Member of LCX Energy, LLC, a Delaware limited liability company, on behalf of said company.



Betty S. Hart  
Notary Public in and for the State of Texas  
Printed Name: Betty S. HART  
Commission Expires: 7-30-2010

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND   §

This instrument was acknowledged before me on \_\_\_\_ day of \_\_\_\_\_, 2006 by Dale Douglas, President of Capstone Investments, Inc., as general partner for Capstone Oil & Gas Company, L.P., a Texas limited partnership, on behalf of said partnership.

\_\_\_\_\_  
Notary Public in and for the State of Texas  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND   §

This instrument was acknowledged before me on \_\_\_\_ day of \_\_\_\_\_, 2006 by John Rutherford, as Vice President, of Parallel Petroleum Corporation, a Delaware corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public in and for the State of Texas  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND   §

      This instrument was acknowledged before me on \_\_\_\_ day of \_\_\_\_\_, 2006 by Mark  
Wheeler, as President, of CMW Interests, Inc., a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public in and for the State of Texas  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

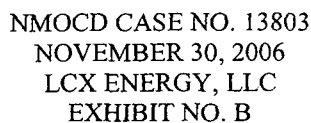
STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND   §

      This instrument was acknowledged before me on \_\_\_\_ day of \_\_\_\_\_, 2006 by Jerry Elger, as  
President, of Elger Exploration, Inc., a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public in and for the State of Texas  
Printed Name: \_\_\_\_\_  
Commission Expires: \_\_\_\_\_

### RECAPITULATION

FEDERAL LANDS:	0.00 ACRES	0.00%
STATE LANDS:	1,920.00 ACRES	100.00%
FEE LANDS:	<u>0.00 ACRES</u>	<u>0.00%</u>
TOTALS:	1,920 ACRES	100.00%





# EXHIBIT "B". SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases

Within the BIG DOG UNIT EDDY COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER	EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST AND PERCENTAGE
1	T18S, R23E - Sec. 24, W/2, Eddy County, NM	320.00	State of New Mexico VO- 6611	04/01/07	State of New Mexico 1/6	Capstone Oil and Gas Co., LP and LCX Energy, LLC	C. Mark Wheeler, et al. 5.5%	LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMV Interests, Inc. 1.25% Elger Exploration, Inc. 1.25%
2	T18S, R23E - Sec. 21, E/2, Eddy County, NM	320.00	State of New Mexico VO- 6610	04/01/07	State of New Mexico 1/6	Capstone Oil and Gas Co., LP and LCX Energy, LLC	C. Mark Wheeler, et al. 5.5%	LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMV Interests, Inc. 1.25% Elger Exploration, Inc. 1.25%
3	T18S, R23E - Sec. 20, E/2, Eddy County, NM	320.00	State of New Mexico VA-2594	05/01/07	State of New Mexico 1/6	Capstone Oil and Gas Co., LP and LCX Energy, LLC	C. Mark Wheeler, et al. 5.5%	LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMV Interests, Inc. 1.25% Elger Exploration, Inc. 1.25%
4	T18S, R23E - Sec. 20, W/2, Eddy County, NM	320.00	State of New Mexico VA-2595	05/01/07	State of New Mexico 1/6	Capstone Oil and Gas Co., LP and LCX Energy, LLC	C. Mark Wheeler, et al. 5.5%	LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMV Interests, Inc. 1.25% Elger Exploration, Inc. 1.25%



TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER	EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY	WORKING INTEREST AND PERCENTAGE
5	T18S, R23E - Sec. 16, E/2, Eddy County, NM	320	State of New Mexico VA-2622	06/01/07	State of New Mexico 1/8	Capstone Oil and Gas Co., LP and LCX Energy, LLC	C. Mark Wheeler, et al. 5.5%	LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% QMW Interests, Inc. 1.25% Elger Exploration, Inc. 1.25%
6	T18S, R23E - Sec. 16, W/2, Eddy County, NM	320	State of New Mexico VA-2623	06/01/07	State of New Mexico 1/8	Capstone Oil and Gas Co., LP and LCX Energy, LLC	C. Mark Wheeler, et al. 5.5%	LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% QMW Interests, Inc. 1.25% Elger Exploration, Inc. 1.25%



PATRICK H. LYONS  
COMMISSIONER

*State of New Mexico*  
*Commissioner of Public Lands*

310 OLD SANTA FE TRAIL  
P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

www.nmstatelands.org

November 27, 2006

Miller Stratvert P.A.  
P. O. Box 1986  
Santa Fe, NM 87504-1986

RECEIVED

NOV 27 2006

MILLER STRATVERT, P.A.

Attention: Mr. J. Scott Hall

Re: Preliminary Approval  
Big Dog State Exploratory Unit Agreement  
Eddy County, New Mexico

Dear Mr. Hall:

This office has received the unexecuted copy of the unit agreement which you have submitted for the proposed Big Dog State Exploratory Unit area, Eddy County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases, until final approval and an effective date have been given.

When submitting your agreement for final approval, please submit the following:

1. Application for final approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. Pursuant to Rule 19.2.100.51, applications for approval shall contain a statement of facts showing:
  - a. That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy.
  - b. That under the proposed unit operation, the State of New Mexico will receive its fair share of the recoverable oil and gas in place under its lands in the proposed unit area.
  - c. That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the unit area.
  - d. That such unit agreement is in other respects for the best interest of the trust.
3. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary and one set must contain original signatures.

Miller Stratvert P.A.  
November 27, 2006  
Page 2

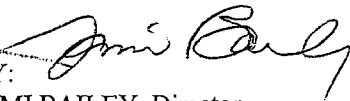
4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. Copies of all the well records for the initial unit well.

Your \$90.00 filing fee has been received.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

PATRICK H. LYONS  
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director  
Oil, Gas and Minerals Division  
(505) 827-5744

RP/JB/pm

pc: Reader File,  
NMOCD – Attn: Mr. David Catanach



EXHIBIT E(1)

