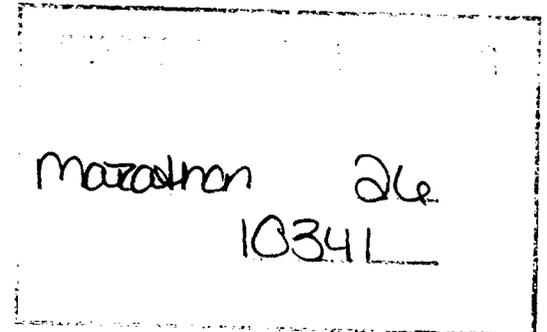




P.O. Box 552  
Midland, Texas 79702  
Telephone 915/682-1626

May 9, 1991

Working Interest Owners  
Proposed Tamano (BSSC) Unit  
(Mailing List Attached)



Re: Comments on Proposed Unit Operating Agreement  
Vote on Adopting Draft 5

Gentlemen:

Set out below is a summary of the various comments regarding the Unit Agreement which have been received from HEYCO, Pennzoil and ARCO, along with Marathon's response. Attached is draft 5 of the Unit Agreement incorporating the changes described below. Also attached is a ballot upon which we would ask you to vote on Marathon's proposal that draft 5 of the Unit Agreement be adopted as the final form Unit Agreement for execution by the parties. Because of the current dispute with BLM over the participation formula, we have omitted the formula from Section 13 and the Tract percentages from Exhibit B.

1. Pennzoil suggests adding a copy of Section 202 of Executive Order 11246 as Exhibit "C" to the Unit Agreement. In that Section 26 of the Unit Agreement provides for compliance by the Unit Operator with Executive Order 11246, Marathon feels this is unnecessary.
2. At Pennzoil's suggestion the word "are" in line two of Section 2 as been changed to "as".
3. Pennzoil has inquired as to what voting percentage would constitute approval by the Working Interest Owners of Tract boundaries as contemplated in Section 3 of the Unit Agreement. Section 4.3 of the Unit Operating Agreement sets out the procedures for votes by the Working Interest Owners for all matters that are not separately addressed within either the Unit Agreement or the Unit Operating Agreement.
4. Pennzoil has requested that the following language be added to the end of the first sentence of Section 4: "provided, however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or interests in the Unitized Substances produced or proceeds thereof." This language has been added in draft 5. Also added were the words "when practicable" and "Tract or" in line

2 of Section 4 and "regarded as reasonably" in line 3 of Section 4. In all other places in Section 4 where there was a reference to "Tracts", the reference is now made to "Tract or Tracts".

5. Pennzoil has suggested that (a) under Section 4 be changed to provide that "the Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application there for with Unit Operator requesting such admission." It is Marathon's position that the language of draft 4 allows for the Unit itself to seek the addition of new tracts to the Unit on its own without having to wait for the owners of such tracts to approach the Unit for admission. Therefore the language has been left as it originally appeared in draft 4.

6. Pennzoil has suggested that the language be inserted in (b) of Section 4 regarding Unit Operator circulation to the Working Interest Owners of the proposal to expand the Unit and the terms for such expansion. This provision is already set out in (a) in draft 4.

7. Pennzoil has suggested that the approval percentage for Unit expansion set out in (b) of Section 4 be increased to 80% from 75% of Working Interest Owners. Marathon has made this change in draft 5.

8. Pennzoil has asked why Section 4 b.3 has been changed from the form agreement used to put together the Tamano Unit Agreement to delete the requirement of filing joinders with BLM. The whole concept of Tracts qualifying for inclusion in the Unit and of joinder of the Unit is not an appropriate concept with regard to the Tamano project. The plan of operations as previously described to the Working Interest Owners will only work if all Tracts within the proposed area are included in the Unit. It is Marathon's intent and recommendation that unitization of the entire proposed area be sought, using the statutory unitization act in the State of New Mexico, if necessary, to force any owners within the proposed area into the Unit who do not voluntarily join. If we cannot get the necessary agreement from Working Interest Owners and Royalty Owners to the current Unit Area, then we will have to start the program over again with a new Unit Area.

9. Pennzoil has recommended deleting the language " or as amended and agreed to by the A.O. the Division and Unit Operator" from the last paragraph of Section 5. This language is applicable to the situation where the Operator and Working Interest Owners are seeking to expand the Unit using the statutory unitization act. Therefore, this language needs to be kept in the agreement.

10. Pennzoil also asks that the language "preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another." be added to the end of the first sentence of the last paragraph of Section 4. The last full sentence of the proposed language is already included in (a) of Section 4. The other proposed language adds needless restrictions on the discretion of the Unit Operator and Working Interest Owners and as been omitted.

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11. Both Pennzoil and ARCO have requested that the percentage to remove the Unit Operator as set out in paragraph 2 of Section 7 be lowered from 100%. ARCO proposed 75% and Pennzoil 80%. Draft 5 has used 80% in this paragraph.

12. The word "automatically" has been added in line 2 of paragraph 3 of Section 7.

13. HEYCO has asked that paragraph 2 of Section 8 be changed to read as follows: "In selecting a successor Unit Operator, the affirmative vote of seventy-five percent (75%) of the Working Interest Owners other than the Unit Operator shall prevail". Marathon has left the language of paragraph 2 of Section 8 as set out in draft 4 but has changed the first two percentages described therein to 80% and 20%.

14. Pennzoil has asked how a "plurality vote" as described in line 3 of paragraph 3 of Section 8 is defined. In this context, a candidate for Unit Manager would have a plurality and thus be elected as Unit Manager, if he simply has the most votes casts in the election regardless of what percent of the vote he gets. Any time there is a vote by Working Interest Owners each Working Interest Owner's vote is determined by its Unit Participation.

15. At Pennzoil's request the language "pursuant to the terms of this Agreement" has been added in line 5 of paragraph 2 of Section 13.

16. Pennzoil has suggested that the language "until a revised schedule is approved as hereinabove provided" be deleted from the end of paragraph 2 of Section 13. In that this language provides that revised schedules may themselves be revised, Marathon has left this language in the agreement.

17. At Pennzoil's suggestion the word "camp" has been deleted from line 4 of Section 14.

18. Pennzoil has inquired as to an apparent conflict between paragraphs 1 and 2 of Section 14. Paragraph 1 of Section 14 provides that Unitized Substances produced from the Unit Area will be allocated to the various Tracts according to the respective Tract Participation factors. Once that production has been allocated then paragraph 2 of Section 14 applies to divide the allocated Unitized Substances among the owners of the individual Tracts.

19. The word "factors" has been added in line 7 in paragraph 1 of Section 14.

20. Pennzoil has inquired as to what expenses might be incurred if the Unit Operator disposes of a Working Interest Owner's proportionate share of production for that Working Interest Owner. Transportation charges is the item that most readily comes to mind in this regard.

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21. Pennzoil has asked how the Working Interest Owner net revenue interests are to be determined and how royalties are to be paid. As provided in paragraph 2 in Section 14, the Unitized Substances allocated to a Tract will be divided among the various interest owners in the Tract according to the leases and other agreements already in place for those Tracts.
22. The word "the" as been added in line 2 of Section 18.
23. The words "State or" have been deleted from line 8 of Section 21.
24. Pennzoil has suggested that paragraph 1 of Section 24 should reflect approval of 75% of the Working Interest Owners and 75% of the Royalty Owners as opposed to all of each of those groups. Section 24 address the situation of a voluntary unit. That is why it provides for approval by all interest owners. Section 39 addresses the situation of statutory unitization.
25. Paragraphs 2 thru 7 of Section 24 still appear in draft 5, contrary to the apparent effect of Marathon's letter to the Working Interest Owners of May 1, 1991.
26. In line 3 of paragraph 2 of Section 24, the phrase " force of effect" has been changed to "force or effect".
27. HEYCO has requested that if the Unit has not become effective the effect of the Unit Agreement shall not continue beyond January 1, 1993, unless 80% of the Working Interest Owners have already approved the Unit. Marathon has incorporated this change.
28. Pennzoil has suggested that Unit Operator's authority to apply to NMOCD for statutory Unitization should also be contingent upon 75% of the Royalty Owners in the Unit Area having become parties to the Agreement. Marathon believes that this is an unnecessary limitation on the Unit Operator's discretion to proceed with statutory unitization and we have not incorporated this change.
29. The proposed changes to the Unit Agreement as set out Marathon's letter of May 1, 1991, to the Working Interest Owners have been incorporated in draft 5. These changes contemplate that a voluntary unit shall be effective January 1, 1992, and that in the event that statutory unitization proceedings are necessary, that Marathon shall seek an effective date of the Unit from the Director of NMOCD of January 1, 1992.

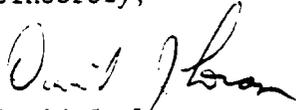
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In that Marathon cannot submit the proposed unit to BLM for designation until we have a final Unit Agreement, we would ask that you return the enclosed ballot at the earliest opportunity. Once we have obtained the necessary percentage to pass the ballot, Marathon will execute the Unit Agreement and file it with BLM along with its application for designation of the unit.

Sincerely,

A handwritten signature in cursive script, appearing to read "David J. Loran".

David J. Loran  
Engineering Manager  
Midland Operations

TCL27A/1e

PROPOSAL TO BE VOTED ON BY  
THE WORKING INTEREST OWNERS

ADOPTION OF FORM OF UNIT AGREEMENT

Proposed Tamano (BSSC) Unit  
Tamano (Bone Spring) Field  
Eddy County, New Mexico  
May 10, 1991

Proposal: That the Working Interest Owners of the Proposed Tamano (BSSC) Unit adopt Draft 5 of the Unit Agreement as the form to be used in preparing the agreement for execution by the Working Interest Owners.

APPROVED BY: \_\_\_\_\_

DISAPPROVED BY: \_\_\_\_\_

ABSTAINED BY: \_\_\_\_\_

PRINT/TYPE NAME: \_\_\_\_\_

COMPANY: \_\_\_\_\_

DATE: \_\_\_\_\_

Please indicate any companies, in addition to your own, that you are representing.

_____	_____
_____	_____
_____	_____
_____	_____

MAILING LIST

WORKING INTEREST OWNERS  
PROPOSED TAMANO (BSSC) UNIT

ARCO Oil and Gas Company  
P. O. Box 1610  
Midland, Texas 79702  
Attention: Mr. Jim Hubbard  
Telephone No.: (915) 688-5349  
VIA FAX NO.: 915-688-5757

Harvey E. Yates Company  
P. O. Box 1933  
Roswell, New Mexico 88202  
Attention: Ms. Rosemary T. Avery  
Telephone No.: (505) 623-6601  
VIA FAX NO.: 505-622-4221

Hudson and Hudson  
616 Texas Street  
Fort Worth, Texas 76102-4216  
Attention: Mr. Randall Hudson  
Telephone No.: (817) 336-7109  
VIA FAX NO.: 817-334-0442

Kerr-McGee Corporation  
P. O. Box 11050  
Midland, Texas 79701  
Attention: Ms. Donna Suchy  
Telephone No.: (915) 688-7000  
VIA FAX NO.: 915-688-7056

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702  
Attention: D. D. Taimuty  
Telephone No.: (915) 682-1626  
VIA FAX NO.: 915-687-8287

Moore and Shelton Co., LTD.  
1414 Sugarcreek Blvd.  
Sugarland, Texas 77478  
Attention: Mr. Donald B. Moore  
Telephone No.: (713) 491-7373

Pennzoil Exploration & Production Company  
P. O. Box 2967  
Houston, Texas 77252  
Attention: R. F. Blucher  
Telephone No.: (713) 546-4000  
VIA FAX NO: 713-546-6495

Wainoco Oil and Gas Company  
1200 Smith Street, Suite 1500  
Houston, Texas 77002  
Attention: Mr. Ray Gasper  
Telephone No.: (713) 658-9900  
VIA FAX NO.: 713-658-8136

Yates Energy Corporation  
500 N. Main, Suite 1010  
P.O. Box 2323  
Roswell, New Mexico 88202  
Attention: Ms. Shari Hamilton  
Telephone No.: (505) 623-4935  
VIA FAX NO.: 505-623-4947