



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

May 14, 1991

WORKING INTEREST OWNERS  
Proposed Tamano (BSSC) Unit  
(Mailing List Attached)

RE: Meeting  
Thursday, May 16, 1991  
Midland, Texas

Working Interest Owners,

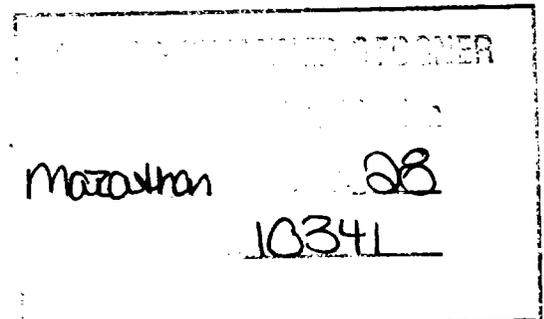
Marathon Oil Company will hold a meeting of Working Interest Owners of the proposed Tamano (BSSC) Unit on Thursday, May 16, 1991 at 10:00 A.M. in the third floor conference room of Marathon's office in Midland, Texas. The purpose of this meeting is to discuss the feedback Marathon has received from the BLM regarding the participation formula and to further discuss among the Working Interest Owners the merits of the participation formula. You are invited and strongly encouraged to attend.

Thank you for your time and consideration of this matter. We look forward to seeing you on Thursday.

Very truly yours,

A handwritten signature in cursive script that reads 'D. J. Loran'.

D. J. Loran  
Engineering Manager  
Midland Operations



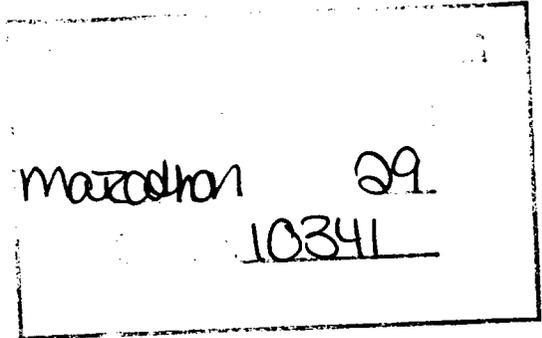


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May 17, 1991

Overriding Royalty Interest Owners  
Tamano (BSSC) Unit  
Eddy County, New Mexico

Re: Proposed Tamano (BSSC) Unit  
S/2NE/4, SE/4 Section 10 and all of  
Section 11, T-18-S, R-31-E, N.M.P.M.  
Eddy County, New Mexico



Dear Unit Interest Owner:

Marathon Oil Company is proposing to unitize the referenced acreage as to the Bone Spring Second Carbonate Formation. Unitization, which is discussed in the following paragraphs, will allow the Working Interest Owners to implement procedures which will enhance the production from the unit area.

The Tamano Field, producing out of the Bone Spring Second Carbonate Formation, is not unlike any other producing field: pressure and, thus, production are beginning to decline. Recently, the Working Interest Owners met to discuss methods which could extend the productive life of the field by recovering oil that would not likely be produced using the present method of operations and existing facilities. The Working Interest Owners have concluded that a unit should be formed which will allow the injection of water into the Bone Spring Second Carbonate Formation to enhance the productive capacity of the field. Marathon estimates that total ultimate recovery of oil from the field will be doubled by waterflooding from 2,250,000 barrels to 4,500,000 barrels.

Unitization is necessary because, with a waterflood program, oil is displaced across lease lines and a number of wells will need to be converted from producing wells to water injection wells. Due to this, it is necessary that all properties be brought together in a manner so that they may be considered and operated as one property. To accomplish this merging of properties, Working Interest Owners and Royalty Interest Owners pool their interests and share in the production from the affected acreage. This pooling and sharing is referred to as "unitization" and the single property formed from the merging of several properties is called a "unit".

Once the unit has been approved by the Bureau of Land Management and the Oil Conservation Division of the State of New Mexico, construction will begin on the facilities needed to implement the waterflood program. The cost to construct the facilities will be borne by the Working Interest Owners in accordance with the provisions of the Unit Operating Agreement. Royalty Owners will never be billed for any unit expenses. However, due to the waterflood program, income to Royalty Owners should be aided by the reversal of the decline in production. Also,

Overriding Royalty Interest Owners - Tamano (BSSC) Unit

May 17, 1991

Page 2

unitization enables the Working Interest Owners to consider other enhanced recovery programs in the future. These programs would be implemented once the waterflood program repressurizes the field and could result in the recovery of an even greater amount of oil from the field. Needless to say, more oil recovered from the field means more revenue for all parties concerned in the unit. Also, Marathon Oil Company, the proposed Unit Operator, is a leader in the industry in regard to enhanced recovery and this experience will be a valuable asset to the unit.

Unitization requires cooperation between the various companies involved in the field and the Royalty Owners. When forming a unit, it is necessary for Royalty and Working Interest Owners to join in a written Unit Agreement which sets out the method of calculating each tract's participation in total Unit production and other concerns. By signing a ratification to the agreement, a Royalty Owner is agreeing to the plan of unitization, the waterflood program, the participation formula for the tracts in the unit and his interest in the unit based on the participation formula. You will find the participation formula for the Tamano (BSSC) Unit set out in Section 13 of the enclosed draft Unit Agreement.

Hopefully, this letter has demonstrated that the purpose of unitization and the waterflood program is to increase ultimate production from the field which, in turn, enables the Royalty Owner to receive more revenue while not paying for the cost associated with the unitization and waterflood process.

Please review the enclosed draft Unit Agreement at your earliest convenience. The agreement contains an Exhibit "B" which is a table listing, by tract, all working interest, overriding royalty and royalty owners and their interests. Examine the Exhibit "B" and verify your interest. If you find your interest to be incorrectly stated, please send your corrections and verification of your interest to this office. Once the Unit Agreement is in its final form, a copy will be mailed to you along with a Ratification and Joinder to the unit. In order to proceed with the unitization and waterflood program, it will be requested that you sign, before a Notary Public, the Ratification and Joinder document.

If you should have any questions regarding this matter, please call the undersigned collect at (915) 687-8306.

Very truly yours,

MARATHON OIL COMPANY



Randal P. Wilson  
Landman

Encl.  
RPW25A/1e

UNIT AGREEMENT  
TAMANO (BSSC) UNIT  
EDDY COUNTY, NEW MEXICO

**DRAFT**