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PATRICK H. LYONS  
COMMISSIONER

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

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CERTIFIED MAIL-RETURN RECEIPT REQUESTED

May 13, 2008

LCX Energy, LLC  
110 North Marienfeld, Suite 200  
Midland, Texas 79701

Attn: Ms. Carole J. Cone

Re: Notice of Termination  
Collins Ranch State Exploratory Unit Agreement  
Eddy County, New Mexico

Dear Ms. Cone:

Our records reflect that LCX Energy, LLC is the operator of record for the Collins Ranch State Exploratory Unit, Eddy County, New Mexico.

*Article 8, Drilling to Discovery provides that: 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 5,100' TVD (True Vertical Depth) and 9,000' (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 5,100 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 address, 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.*

-State Land Office Beneficiaries -

Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital •

Our records reflect the following:

- The Collins Ranch State Unit Agreement was approved effective August 22, 2006.
- Our final approval letter of August 22, 2006 was conditioned upon the understanding the LCX Energy would drill a second unit well within a pro-ration unit to include the SE/4 of Section 30-17S-24E within six months from the completion date of the initial unit well.
- The initial well (API #30-015-34856), the Collins Ranch State Unit Well No. 312 was spudded on December 30, 2006 and completed on March 23, 2007. This well is currently producing in the Gopher; Wolfcamp pool. A commercial well determination was never submitted for this well, therefore, the well is considered non-commercial and is producing on a lease basis.
- Pursuant to Article 8 of the unit agreement, the second exploratory well was due to be commenced on or before September 23, 2007 being six months from the completion date of the initial well.
- The second exploratory well (API #30-015-35277), the Collins Ranch State Unit Well No. 4 was spudded on February 21, 2007 and completed on April 20, 2007. This well is currently producing in the Gopher; Wolfcamp pool. A commercial well determination was never submitted for this well therefore, the well is considered non-commercial and is producing on a lease basis.
- Pursuant to Article 8 of the agreement, the third exploratory well was due to be commenced on or before October 20, 2007.
- Pursuant to your email to Pete Martinez and Jeff Albers on January 23, 2008 you advised this office as follows: "This is for the file. LCX does not intend to develop the Collins State Exploratory Unit. No further wells will be drilled in the SE/4 of Section 30, the E/2 of Section 31 and all of Section 32, T17S-R24E, Eddy County, NM. Thank you both for your assistance!"
- It appears that the required Collins Ranch Federal Com Well No. 003H (API # 30-15-35756) covering the SE/4 of Section 30-17S-24E API # 30-15-35756 was never commenced. Also API # 30-015-34579 The State 1724 Well No. 321 A-32-17S-24E was also never commenced.

Please be advised that you have 30 days from the date of this letter to show cause why the Collins Ranch State Unit Agreement should not be terminated. Failure to show cause will result in the unit being terminated effective October 20, 2007 being the date that the 3rd unit well was due to be commenced.

Please notify all interested parties of this action.

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  
RP/JB/pm

cc: OCD-Santa Fe Attn: Mr. Ed Martin  
TRD-Santa Fe Attn: Mr. Valdean Severson  
RMD-Santa Fe Attn: Mr. Kurt McFall  
Reader File