



RECEIVED

AUG 24 2006

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

Oil Conservation Division
COMMISSIONER'S OFFICE
1220 S. St. Francis Drive
Santa Fe, NM 87504
Phone (505) 827-5760
Fax (505) 827-5766
www.nmsstatelands.org

August 22, 2006

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

Attn: Mr. J. Scott Hall

Re: Final Approval
Collins Ranch State Exploratory Unit
Eddy County, New Mexico

Dear Mr. Hall:

This office is in receipt of your letter of August 18, 2006, requesting final approval of the Collins Ranch State Exploratory Unit Agreement, Eddy County, New Mexico. Your letter states that all tracts within the unit area are fully committed.

Please be advised that the Commissioner of Public Lands has this date granted final approval to the Collins Ranch State Exploratory Unit Agreement. The effective date of your agreement is August 22, 2006.

Our final approval is subject to the understanding that LCX Energy has agreed to the drilling of a second unit well within a pro-ration unit including the SE/4 of Section 30-17S-24E within six months from the completion date of the initial unit well.

Enclosed are (5) Certificates of Approval.

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: *John H. Bemis*
JOHN H. BEMIS, Assistant Commissioner
Mineral Resources
(505) 827-5744
PL/JB/pm

pc: Reader File,
OCD-Santa Fe, Attn: Mr. Roy Johnson
TRD-Attn: Mr. Valdean Severson
RMD-Attn: Mr. Kurt McFall

-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 •

UNIT NAME: COLLINS RANCH STATE EXPLORATORY UNIT
OPERATOR: LCX ENERGY, LLC
COUNTY: EDDY

| DATE APPROVED | OCC CASE NO. OCC ORDER NO. | TOTAL ACREAGE | STATE | FEDERAL | INDIAN FEE | SEGREGATION CLAUSE | TERM |
|-------------------------|-------------------------------------|------------------|---------|---------|---------------|-----------------------|-----------------------|
| EFFECTIVE 08/22/2006 | CASE NO. 13752 ORDER NO. R-12611 | 1120.00 | 1120.00 | 0 | 0 | STRICT | 5 YEARS SO LONG AS |

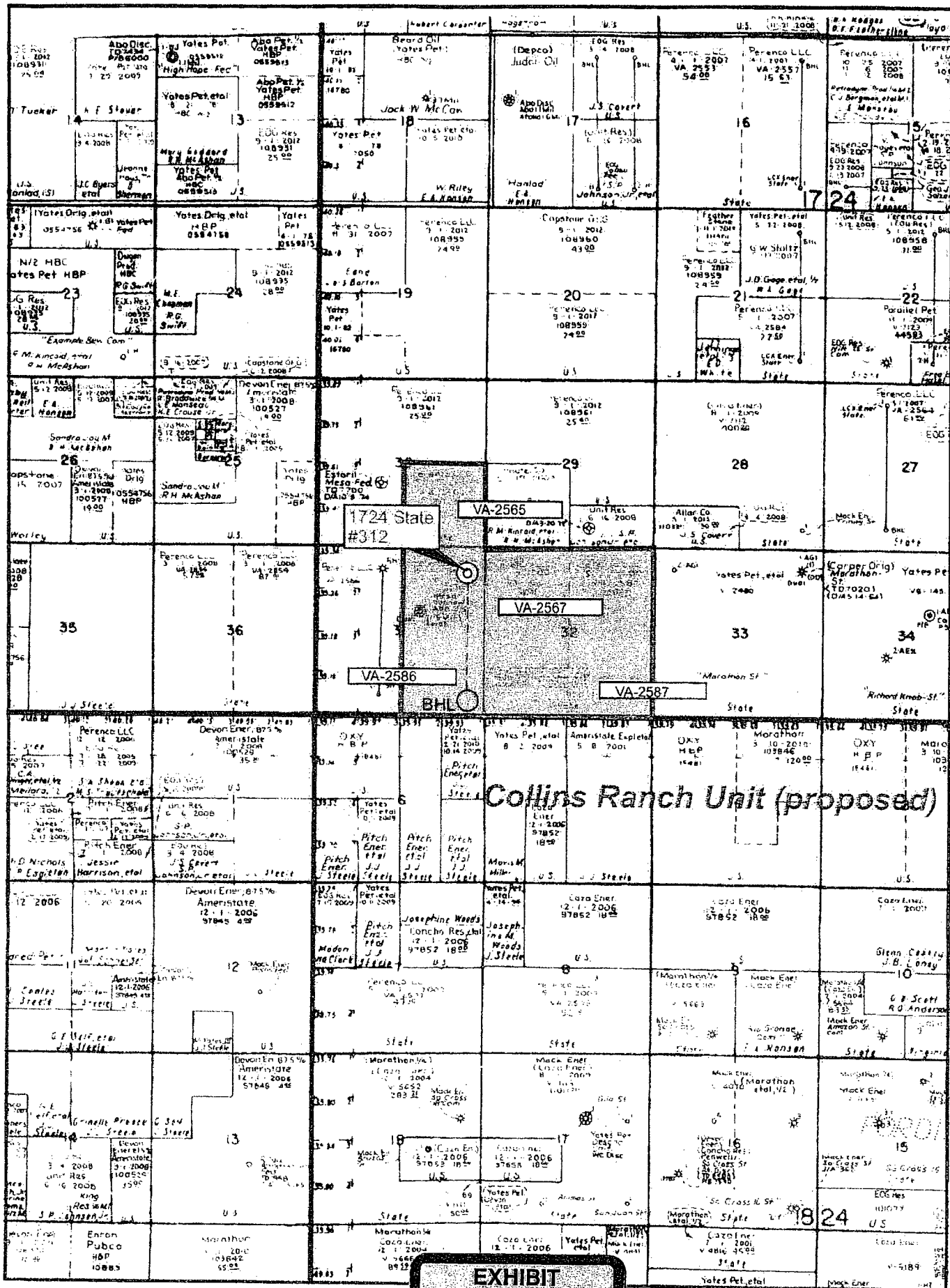
APPROVALS

SLO--08-22-20065
OCD--08-08-2006

TOWNSHIP 17 SOUTH, RANGE 24 EAST

SECTION 30: SE/4
SECTION 31: E/2
SECTION 32: ALL

2006 AUG 25 PM 12 58



EXHIBIT

A

EXHIBIT "B". SCHEDULE OF OWNERSHIP

Schedule Showing All Lands and Leases

Within the COLLINS RANCH 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 | T17S, R24E - Sec. 30, 31, 32, 33, 34 Eddy County, NM | 160.00 | State of New Mexico VA-2565 - 2 | 05/01/07 | State of New Mexico 1/8 | Capstone Oil and Gas Co., LP and LCX Energy, LLC | None 6/15/06 | LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMW Interests, Inc. 1.25% Eiger Exploration, Inc. 1.25% |
| 2 | T17S, R24E - Sec. 32, 33, 34 Eddy County, NM | 320.00 | State of New Mexico VA-2567 - 2 | 05/01/07 | State of New Mexico 1/8 | Capstone Oil and Gas Co., LP and LCX Energy, LLC | None 6/15/06 | LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMW Interests, Inc. 1.25% Eiger Exploration, Inc. 1.25% |
| 3 | T17S, R24E - Sec. 31, 32, 33, 34 Eddy County, NM | 320.00 | State of New Mexico VA-2586 - 2 | 05/01/07 | State of New Mexico 1/8 | Capstone Oil and Gas Co., LP and LCX Energy, LLC | None 6/15/06 | LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMW Interests, Inc. 1.25% Eiger Exploration, Inc. 1.25% |
| 4 | T17S, R24E - Sec. 32, 33, 34 Eddy County, NM | 320.00 | State of New Mexico VA-2587 - 2 | 05/01/07 | State of New Mexico 1/8 | Capstone Oil and Gas Co., LP and LCX Energy, LLC | None 6/15/06 | LCX Energy, LLC 76.50% Capstone Oil and Gas Company, LP 12.50% Parallel Petroleum Corporation 8.50% CMW Interests, Inc. 1.25% Eiger Exploration, Inc. 1.25% |

1120 AC. ALL STATE

EXHIBIT "C"

TRACT PARTICIPATION FACTORS
COLLINS RANCH UNIT
EDDY COUNTY, NEW MEXICO

| <u>TRACT NO.</u> | <u>LEASE</u> | <u>TRACT FACTOR</u> |
|------------------|--------------|---------------------|
| 1 | VA-2565 | .142857 |
| 2 | VA-2567 | .285714 |
| 3 | VA-2586 | .285714 |
| 4 | VA-2587 | <u>.285714</u> |
| | | 1.000000 |