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LAND DEPT.

Ray Powell, M.S., D.V.M.
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

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SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE
Phone (505) 827-5760
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www.nmstatelands.org

March 8, 2013

Sundown Energy LP
Two Galleria Tower
13455 Noel Road, Suite 2000
Dallas, Texas 75240

Attention: Mr. Kyle A. Paxton

Re: Preliminary Approval
Proposed Bobbi State Waterflood Unit
Lea County, New Mexico

Dear Mr. Paxton:

This office has received the unexecuted copy of the unit agreement, which you have submitted for the proposed Bobbi State Waterflood Unit area, Lea 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. It is our understanding that no fresh water will be used in this project.

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.

NMOCD CASE NO. 14982
NMOCD CASE NO. 14983
May 16, 2013
Exhibit No. 2

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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. Initial Plan of Operation.
 8. Re-designation of all well names and numbers.
 9. Please submit a \$90.00 filing fee.
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10. On Section 2(d) of the unit agreement please include the formation (San Andres) in the definition.
 11. On Section 12 please clarify the tract participation formula so that we can verify the tract percentages on Exhibit "C".
 12. On Exhibit "B" on Tract Nos. 12 thru 19 the correct lease number is *B*-2317-13.
 13. Please include in your cover letter or exhibit, a land description of the unit boundaries.

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

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY: 
Larry J. Roybal, Director
Oil, Gas and Minerals Division
(505) 827-5744
RP/LR/pm
cc: Reader File,
OCD-Attention: Mr. Ed Martin