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State of New Mexico

Commissioner of Public Lands

310 OLD SANTA FE TRAIL

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SANTA FE, NEW MEXICO 87504-1148

PATRICK H. LYONS  
COMMISSIONER

COMMISSIONER'S OFFICE

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May 21, 2008

Parallel Petroleum Corp.  
1004 N. Big Spring Street, Suite 400  
Midland, TX 79701

Attn: Mr. Dennis J. Hopkins

Re: Notice of Termination  
Effective December 6, 2007  
Walnut Draw State Exploratory Unit Agreement  
Eddy County, New Mexico

13868

Dear Mr. Hopkins:

Our records reflect that Parallel Production Corp. is the operator of record for the Walnut Draw 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 a depth sufficient to attain the top of the Wolfcamp shale 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 5,000 feet. 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 • State Park Commission • University of New Mexico • UNM Saline Lands • Water Reservoirs • Western New Mexico University

Our records reflect the following:

- The Walnut Draw State Unit Agreement was approved effective March 1, 2007.
- The initial well (API #30-015-35376), the Walnut Draw Unit 1821-25 State Well No. 1 was spudded April 7, 2007 and completed in the Four Mile Draw; Wolfcamp, SW (G) pool on June 6, 2007. Your letter of November 16, 2007 notified this office that this well does not meet the parameters to qualify as a unit well and submitted a Communitization agreement.
- Pursuant to Article 8 of the unit agreement, the second exploratory well was due to be commenced on or before December 6, 2007 being six months from the completion date of the initial well.
- The second exploratory well was never drilled.
- Pursuant to your phone conversation with Pete Martinez on May 20, 2008 you acknowledged that Parallel does not intend to further develop the unit area and the unit should be terminated.

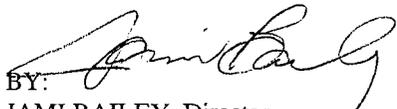
In view of the above, please be advised that the Walnut Draw State Exploratory Unit Agreement has been terminated effective December 6, 2007.

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

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