

thereof. The overriding royalty shall be computed and paid at the same time and in the same manner as royalties payable to the lessor under the terms of the lease are computed and paid, and we shall be responsible for our proportionate part of all taxes and assessments levied upon or against or measured by the production of oil and gas therefrom. The overriding royalty shall (a) be the total overriding royalty for which you shall be obligated and shall include all existing royalties, overriding royalties and obligations payable out of production from said lands, (b) be proportionately reduced if the assignment grants to you less than the entire leasehold estate in the lands, (c) be subject to the suspension provisions of 43 C.F.R. 3103.3-6, if applicable, and (d) be subject to any governmentally approved cooperative or unit plan of development or operation or communitization or other agreement forming a well spacing or proration unit under the rules or regulations of the New Mexico Oil Conservation Division, to which the lease is now committed or may hereafter be committed, and in such event the overriding royalty shall be computed and paid on the basis of the oil and gas allocated to the lands pursuant to the terms of the plan or agreement. No change in the ownership of the overriding royalty shall be binding upon you until such time as you shall have been furnished with either the original, a certified copy or an acceptable reproduction copy of the recorded instrument or instruments effecting the change in ownership.

7. UNIT ALLOWABLE * WELCH ST. #1

The parties hereto recognize that there is already producing in the Operating Zone a well on the subject lands (the "Existing Well"), which will result in a limitation of the allowable imposed upon the well to be drilled hereunder. If the cumulative production from both wells, on a calendar month basis, shall at any time exceed the allowable permitted by the New Mexico Oil Conservation Division for the proration unit, the Existing Well shall have the prior right to produce all it can produce; provided that the well to be drilled hereunder shall never be restricted to less than 20 barrels of oil per day, on a monthly basis. Nothing herein shall be construed to impair existing rights in the Existing Well, it being intended that each of the parties may exercise its correlative rights in the manner set forth herein.

8. NOTICES

All notices required or permitted by this letter shall be deemed to have been properly given if sent by regular mail,