

---

**From:** Brent Sawyer  
**Sent:** Friday, March 21, 2014 9:19 AM  
**To:** Kathie Craft  
**Cc:** Ken Dixon; Randy Howard  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Kathie:

Certainly I will.

We do have that outstanding curative I need to work out with Mr. Dixon and I won't be approaching any of the other working interest partners until we have that all wrapped up. I'll get a comprehensive list together and get in touch with him early next week.

Most of the curative stems from the fact that I doubt anyone even considered that we would dissolve the unit after only 4 years. I believe the most pressing issue is that the term assignment from Nearburg to Marbob is effective until the SRO Unit is dissolved so technically it has expired. However, we are moving forward on the assumption that it was intended to keep the assignment and the ORR effective until all the wells in (or formerly in) the unit are plugged, so we will need to paper that up. However, if that assumption is incorrect please let me know since it will affect the work the title lawyer is doing on the updated opinions for the wells.

Thanks  
Brent

---

**From:** Kathie Craft [mailto:kcrafft@nearburg.com]  
**Sent:** Friday, March 21, 2014 8:18 AM  
**To:** Brent Sawyer  
**Cc:** Ken Dixon; Randy Howard  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Thanks Brent. Please keep us informed.

---

**From:** Brent Sawyer [mailto:BSawyer@concho.com]  
**Sent:** Thursday, March 20, 2014 5:25 PM  
**To:** Kathie Craft  
**Cc:** Ken Dixon; Randy Howard  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Kathie:

I'm not sure how our division order department is handling the change in ownership in the SRO wells but I will find out.

I got started investigating this issue when Lisa Winter asked me to help her with an inquiry from a sharp eyed division order analyst at Oxy. I had no idea how long the thread was when I started pulling on it and we aren't



to the end. I have not spoken with any of the other working interest partners yet. I hope that since they also signed division orders and have been on pay for the last few years that they won't force anyone's hand since your ORR burdens all of the working interest partners proportionately.

Thanks  
Brent

---

**From:** Kathie Craft [<mailto:kcraft@nearburg.com>]  
**Sent:** Thursday, March 20, 2014 4:32 PM  
**To:** Brent Sawyer  
**Cc:** Ken Dixon; Randy Howard  
**Subject:** SRO STATE UNIT 16H - Division Order

Thanks. Unfortunately the Dallas office was not furnished a copy of the termination of the unit. And yes, please contact Ken Dixon our Land Manager.

Prior to the new title examination and issuance of revised Division Orders, will you suspend payments to all owners? And we concur with the decision not to go back and make adjustments to payments which have heretofore been made.

Thanks

---

**From:** Brent Sawyer [<mailto:BSawyer@concho.com>]  
**Sent:** Thursday, March 20, 2014 3:11 PM  
**To:** Kathie Craft  
**Cc:** Lisa Winter; Jennifer Lujano  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Kathie:

I'm sorry this is a surprise to you but yes, the entire state unit was terminated voluntarily effective March 1 by at least 75% of the working interest owners. It appears that Randy Howard executed the attached voluntary termination in October.

Our landman who works the area, Lisa Winter, can explain it in better detail than I can but my understanding is that we terminated the unit voluntarily because if the unit terminated by its own terms (on 6/29/14) all of the state leases in all of the undrilled proration units (approx. 5,000ac) would then have been subject to a 180 day CDC and would expire if not satisfied. By terminating the unit voluntarily the undrilled proration units are all HBP by existing wells, not subject to the CDC or expiration, but can be drilled at will subject to the JOA already in place.

The overpayment originated in the original calculation of Nearburg's royalty in the unit. When the unit was formed your ORR should have been:

$(1/4 - 1/6) \times (320/7360)$  or 0.00362319

The above uses the gross acres in the unit. However, for an unknown reason the net acres in the unit was used:

$(1/4 - 1/6) \times (320/6424.80592)$  or 0.00415092



The difference between the two is 0.00052773, which I have estimated to be roughly \$40,000. However, I think we will only worry about correcting it going forward after the termination of the unit since I think we will be sending out new division orders for each well.

Speaking of which, our title lawyer is currently working on getting supplementary opinions for each individual well's proration unit, since the SRO state unit has terminated. I'm not sure where he stands on the #16H but I'll find out.

I think we will need to do some curative cleanup and Lisa mentioned that I should probably talk to Ken Dixon. Is he the right person I should be contacting about that?

Thanks  
Brent

---

**From:** Kathie Craft [<mailto:kcraft@nearburg.com>]  
**Sent:** Thursday, March 20, 2014 10:50 AM  
**To:** Brent Sawyer  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Sorry, I'm not following you... So did Concho (or who) terminate the SRO Unit effective March 1, 2014 and why? Not sure about the overpayment of \$40,000. If the unit didn't terminate until March 1<sup>st</sup> we wouldn't have gotten overpaid.

Thanks

---

**From:** Brent Sawyer [<mailto:BSawyer@concho.com>]  
**Sent:** Thursday, March 20, 2014 10:30 AM  
**To:** Kathie Craft  
**Cc:** Jennifer Lujano; Lisa Winter  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Kathie:

The number used to calculate Nearburg's ORR in the SRO Unit was incorrect. For some reason the net acres in the unit (320/6424) was used, not the gross (320/7360). We are also evaluating the effect of the termination of the SRO Unit as of March 1 on the ORR.

Moreover, since it burdened all of the WI owners and affected all of the Unit wells we are determining what we are going to propose as a remedy, since it appears you were overpaid approximately \$40,000.

Thanks  
Brent

---

**From:** Kathie Craft [<mailto:kcraft@nearburg.com>]  
**Sent:** Thursday, March 20, 2014 10:10 AM  
**To:** Brent Sawyer  
**Subject:** SRO STATE UNIT 16H - Division Order

Good Morning –  
Don't guess you've had a chance to look at the SRO #16.....  
Thanks  
KC

---

**From:** Kathie Craft  
**Sent:** Friday, February 21, 2014 3:45 PM  
**To:** 'Brent Sawyer'  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Thanks – appreciate it –

---

**From:** Brent Sawyer [<mailto:BSawyer@concho.com>]  
**Sent:** Friday, February 21, 2014 10:12 AM  
**To:** Kathie Craft  
**Cc:** Jennifer Lujano; Lisa Winter  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Kathie:

Clearly we have title opinions that calculate your override differently. I'm looking into it and hope to have something for you by the end of next week.

Thanks

Brent Sawyer, RPL  
Land Specialist  
One Concho Center  
600 W. Illinois Avenue  
Midland, Texas 79701  
p.432.686.3015  
c.512.997.5954  
f.432.221.0856



---

**From:** Jennifer Lujano  
**Sent:** Thursday, February 20, 2014 4:53 PM  
**To:** Brent Sawyer  
**Subject:** FW: SRO STATE UNIT 16H - Division Order

**From:** Kathie Craft [<mailto:kcraft@nearburg.com>]  
**Sent:** Thursday, February 20, 2014 9:23 AM  
**To:** Jennifer Lujano  
**Subject:** SRO STATE UNIT 16H - Division Order

Hey Jennifer –

Just wondering if you've had a chance to look at this so we can get it off our plates☺.

Thanks – Kathie

**From:** Kathie Craft  
**Sent:** Monday, January 13, 2014 3:49 PM  
**To:** 'Jennifer Lujano'  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Thanks – but why wouldn't our interest be figured as:

.25 - 1/6 x 320/6424.80592 or .00415092 as under the SRO #10H which was also fully committed to the SRO Unit?

Kathie

**From:** Jennifer Lujano [<mailto:JLujano@concho.com>]  
**Sent:** Monday, January 13, 2014 9:44 AM  
**To:** Kathie Craft  
**Subject:** RE: SRO STATE UNIT 16H - Division Order

Good morning Kathie,

I have attached a copy of the DOTO stating Nearburg's ORRI calculation. Let me know if you need anything else.

**From:** Kathie Craft [<mailto:kcraft@nearburg.com>]  
**Sent:** Friday, January 10, 2014 5:42 PM  
**To:** Jennifer Lujano  
**Subject:** SRO STATE UNIT 16H - Division Order

Thanks – can you send me a copy of the Division Order Title Opinion (or COG's worksheet) in order for us to determine the arrival of our ORI under this proration unit?

**From:** Jennifer Lujano [<mailto:JLujano@concho.com>]  
**Sent:** Thursday, January 09, 2014 5:00 PM  
**To:** Kathie Craft  
**Subject:** SRO STATE UNIT 16H - Division Order

Kathie,

I have attached a copy of the division order for the overriding royalty interest. If you will please mail the original to the address below, we will place Nearburg's interest in pay status.

Thank you,  
Jennifer Lujano  
*Division Order Analyst*  
COG Operating LLC  
One Concho Center - CC1  
600 W. Illinois Avenue  
Midland, Texas 79701  
Office 432.818.2308  
Email: [jlujano@concho.com](mailto:jlujano@concho.com)



CONFIDENTIALITY NOTICE: The information in this email may be confidential and/or privileged. If you are not the intended recipient or an authorized representative of the intended recipient, you are hereby notified that any review, dissemination or copying of this email and its attachments, if any, or the information contained herein, is prohibited. If you have received this email in error, please immediately notify the sender by return email and delete this email from your system. Thank you.