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300 AMERICAN HOME BUILDING  
 P. O. DRAWER 239  
 ARTESIA, NEW MEXICO 88211-0239

AREA CODE 505  
 746-3508

October 11, 1984

IN RE OPINION OF TITLE TO: Oil and gas leasehold  
 estate, only from the surface down to the base of  
 the Drinkard formation, underlying:

Township 22 South, Range 37 East, N.M.P.M.

No. 6104

Section 5: SW/4

containing 160 acres, more or less,

in Lea County, New Mexico.

Bliss Petroleum, Inc.  
 P. O. Box 1817  
 Hobbs, New Mexico 88240

BLISS PETROLEUM, INC.  
 Case No. 8773  
 4/2/86 Examiner Hearing  
 Exhibit No. 10

Gentlemen:

In connection with the title to the lands described in the caption hereof, we have examined the following:

1. Opinion dated November 28, 1941, rendered by Leslie A. Thomeson, staff attorney for Stanolind Oil and Gas Company (now Amoco Production Company), covering the exact captioned lands, shown to be based on abstracts certified to November 5, 1941 at 7:00 A.M.
2. Abstracts of Title Nos. 84-696 and 84-634, compiled by Elliott & Waldron Title & Abstract Co., Inc., Lovington, New Mexico, containing 731 pages, and tracing title to the minerals only underlying the captioned lands, as reflected by the records in the Offices of the County Clerk and Clerk of the District Court of Lea County, New Mexico, from November 5, 1941 at 7:00 A.M. to September 4, 1984 at 7:00 A.M.

From our examination of the foregoing, we report as follows:

I. TITLE TO OIL AND GAS LEASEHOLD ESTATE, ONLY FROM THE SURFACE DOWN TO THE BASE OF THE DRINKARD FORMATION:

Charles Tyson Smith, II (4/64 of 1/8)	. . . . .	.0078125	RI
Juliette Rathbone Finch (4/64 of 1/8)	. . . . .	.0078125	RI
Marguerite McKim Kent (4/64 of 1/8)	. . . . .	.0078125	RI
Raymond Lee McKim (4/64 of 1/8)	. . . . .	.0078125	RI
George H. Etz, Jr., Trustee, under Trust Agreement dated August 2, 1974, recorded Book 322, Page 27 (8/64 of 1/8)	. . . . .	.0156250	RI
Etz Oil Properties, Ltd. (8/64 of 1/8)	. . . . .	.0156250	RI
Newmont Oil Company (6/64 of 1/8)	. . . . .	.0117187	RI
Billie June Crow, as her sole and separate property (7/64 of 1/8)	. . . . .	.0136719	RI
Mary Swanson Sutcliffe, as her sole and separate property (1/64 of 1/8)	. . . . .	.0019531	RI
Amoco Production Company (6/64 of 1/8)	. . . . .	.0117187	RI
First National Bank of Lubbock, Texas, Successor Trustee under the will of J. E. Simmons and Beulah Simmons, both deceased (6/64 of 1/8)	. . . . .	.0117188	RI
The C. W. Grimes Trust (6/64 of 1/8)	. . . . .	.0117188	RI
*Amoco Production Company	. . . . .	.8750000	WI

\*As to horizons from 4,000 feet down to the base of the Drinkard formation, 1/2 the WI is subject to a 1/4 net profits interest which is the subject of Requirement 3 below.

II. **EFFECTIVE OIL AND GAS LEASE:** The apparently effective oil and gas lease covering the lands described in the caption hereof, and other lands, is dated April 12, 1926, recorded Book 3, Page 403, by James W. Grizzell, a widower, to Llano Oil Company, now held by Amoco Production Company, covering the captioned lands and other lands totaling 320 acres, more or less, for a primary term of 10 years, at 1/8th royalty. This ancient lease does not contain pooling, shut-in gas, or rework provisions.

III. **COMMENTS:**

1. Base Title Opinion. We have not examined the base abstracts on the captioned lands, but instead have relied upon the prior title opinion described above. We believe that you may safely rely upon this prior title opinion, but you will understand that we cannot be responsible for the matters covered in that opinion.

2. South Penrose Skelly Unit. The captioned lands, and other lands totaling 3,640.18 acres, more or less, were committed to the South Penrose Skelly Unit dated November 22, 1963, approved by the U.S.G.S. on May 14, 1965, and by the New Mexico Oil Conservation Division on October 21, 1964, recorded Book 234, Page 294. While we know that this unit has terminated, that fact is not shown by the abstracts.

3. Casinghead Gas Contract. The Purchase Agreement described in Requirement 3 below reflects that the captioned lands are subject to a Casinghead Gas Contract dated November 3, 1983, between Amoco Production Company and Getty Oil Company. The rights you acquire will also be subject to this contract.

IV. **REQUIREMENTS:**

1. Extension of Lease. The effective oil and gas lease is far beyond its primary term, and whether continuous production of oil and gas in paying quantities has been maintained to a current date cannot be determined from the abstracts.

You should make certain that the oil and gas lease is in effect by reason of continuous production of oil and gas in paying quantities, including the period since termination of the South Penrose Skelly Unit mentioned in Comment 2 above.

2. Form of Oil and Gas Lease. The oil and gas lease described in II above is very old and does not contain several provisions common to modern leases, including pooling, shut-in gas, and rework clauses. The significance of this is that the lease does not permit the lands covered thereby to be pooled by the lessee to comply with modern spacing requirements, to pay shut-in royalty to avoid termination when a gas well is shut-in, nor does it permit the lessee a period of time following cessation of production to commence additional drilling or re-working operations to restore production and keep the lease in effect. Some modern cases in other states have implied some of this authority to the lessee, but we have no controlling New Mexico cases on point.

You should set up your records to make sure you diligently operate the lease to maintain production in paying quantities. You may wish to seek to amend the oil and gas lease with the present lessors in order to remedy the problems described above.

3. Unrecorded Net Profits Interest. By assignment dated December 22, 1941, recorded Book 45, Page 159, Landreth Production Corporation assigned 1/2 interest in the effective oil and gas lease to Stanolind Oil and Gas Company, predecessor to Amoco Production Company. Subsequently, Landreth Company, then owner of the other 1/2 interest below 4,000 feet beneath the surface, assigned the same to Stanolind by instrument dated November 27, 1942, recorded Book 45, Page 444.

No reservation of any type was made in either of the above assignments. However, other instruments in the abstracts refer to contracts dated November 29, 1941, November 7, 1942, and November 30, 1942, between Stanolind Oil and Gas Company and the grantors in the above described assignments, none of which are recorded. We have obtained copies of each from Amoco Production Company, and the only provision which affects your current interest in the property is in Paragraph 10 of the Contract of November 7, 1942, which provides for a net profits interest of 1/2 the net profits from the 1/2 interest assigned by the second conveyance to Stanolind described above. The interest was reduced to 1/4 by the agreement of November 30, 1942, so that the interest is currently 1/4 of 1/2 or 1/8 net profits interest, from the captioned lands, and S/2 NE/4 Section 8, Township 22 South, Range 37 East, N.M.P.M., below 4,000 feet beneath the surface. Since you are purchasing only SW/4 Section 5, surface to base of the Drinkard formation, the net profits calculation must continue to be made by Amoco, and its accounting department has advised that the Landreth Company net profits interest is now owned by several hundred owners. The contract described in Requirement 4 below does not adequately address this problem to assure that Bliss Petroleum, Inc. does not become burdened with the accounting for this net profits interest.

We are negotiating revision of the agreement with Amoco on your behalf, and reserve further requirements.

4. Amoco Production Company - Bliss Petroleum, Inc. Purchase Agreement and Assignment. We have examined a copy of a Purchase Agreement dated July 27, 1984, effective August 1, 1984, whereby Amoco Production Company agrees to convey its interest in the captioned lands, and other lands, and all personal property, to Bliss Petroleum, Inc. This agreement provides, among other things, that Amoco shall have the option, for a period of 21 years from the effective date, to purchase all production. Since you are a party to this agreement we do not further analyze its terms, but point out that you should set up your records to comply with the same.

The Purchase Agreement has attached as Exhibit "D" a proposed form of conveyance to Bliss Petroleum, Inc. The Purchase Agreement describes the property adequately, but in our opinion the proposed conveyance should contain additional language to make clear it assigns the oil and gas leasehold estate and not only the personal property. We have re-drafted the first page of this assignment, underlined the additional language we propose, and furnished the same to you with our Opinion No. 6044 dated August 30, 1984. You should request Amoco to adhere to this form when you pay the purchase price for the interest to be purchased.

When the Assignment to you has been executed and acknowledged on behalf of Amoco, it should be recorded in the county records.

When the requirements hereinabove set forth have been satisfied, we will approve title, to the minerals and oil and gas leasehold estate underlying the lands described in the caption hereof, on

Bliss Petroleum, Inc.

No. 6104

the date to which the abstracts were last certified, in accordance with this opinion.

Respectfully submitted,

LOSEE, CARSON & DICKERSON, P.A.

  
Chad Dickerson

CD:pvm

Abstracts returned herewith