



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

*State of New Mexico*  
*Commissioner of Public Lands*

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

October 17, 2012

Clero Energy II, LP  
400 West Illinois Ave  
Suite 1601  
Midland, Texas 79701

Attention: Mr. John E. Lodge

Re: Preliminary Approval  
Proposed North Caprock Celero Queen Unit  
Lea and Chaves Counties, New Mexico

Dear Mr. Lodge:

This office has received the unexecuted copy of the unit agreement, which you have submitted for the proposed North Caprock Celero Queen Unit area, Lea and Chaves Counties, 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.

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.

Oil Conservation Division  
Case No. 3  
Exhibit No. 3

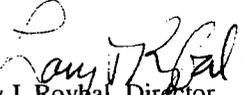
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4. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.
5. Please submit two copies of the Unit Agreement.
6. A copy of the Unit Operating Agreement (if applicable).
7. Initial Plan of Operation.
8. Re-designation of all well names and numbers.
8. Compliance with State Land Office rule 19.2.100.51 C. (2) Use of Fresh Water.
9. Your filing fee in the amount of \$240.00 has been received.

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