

# MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(432) 682-3715  
FAX (432) 685-4170

January 18, 2016

THIS INFORMATION OR OPINION IS  
FURNISHED AT YOUR REQUEST AS  
A MATTER OF ACCOMMODATION AND  
YOU AGREE BY YOUR ACCEPTANCE  
HEREOF THAT ANY USE OF OR  
RELIANCE THEREON SHALL BE  
WITHOUT RECOURSE TO MEWBOURNE  
OIL COMPANY.

## DRILLING TITLE OPINION

Mewbourne Oil Company  
Midland Office

Attn: Mr. Paul Haden

Re: The following oil and gas leases insofar as they cover the lands indicated in  
Township 18 South, Range 29 East, N.M.P.M., Eddy County, New Mexico:

Federal Lease NMLC 067348 insofar as it covers the following:

Section 28: NE $\frac{1}{4}$ SW $\frac{1}{4}$ ,

containing 40 acres, more or less.

Federal Lease NMLC 067348-A covering the following:

Section 28: NW $\frac{1}{4}$ SE $\frac{1}{4}$ ,

containing 40 acres, more or less.

Federal Lease NMNM 030752 insofar as it covers the following:

Section 28: S $\frac{1}{2}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$  and NW $\frac{1}{4}$ SW $\frac{1}{4}$ ,

containing 200 acres, more or less.

Federal Lease NMNM 34462 insofar as it covers the following:

Section 28: SE $\frac{1}{4}$ SE $\frac{1}{4}$ ,

containing 40 acres, more or less.

Said lands collectively comprising the S $\frac{1}{2}$  of Section 28, containing 320 acres, more  
or less.

(Pavo Frio "28" Prospect)

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Gentlemen:

At your request, I have examined the following:

### PRIOR TITLE OPINION

Copy of Drilling Title Opinion dated January 29, 1979 addressed to Hondo Drilling Company  
and Yates Petroleum Corporation prepared by Losee & Carson, P.A. covering the NE $\frac{1}{4}$ SW $\frac{1}{4}$  of  
Section 28 limited to those depths below 2,150' subsurface and the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 28 limited  
to those depths below 2,139' subsurface, among other lands, based upon examination of abstracts  
covering the period from inception of the records to December 18, 1978 at 10:00 a.m. as to the  
federal records and December 18, 1978 at 8:00 a.m. as to the records of Eddy County, New  
Mexico.

### ABSTRACTS

1. Abstract No. 11006 certified by Schutz Abstract Company, Inc. as covering the Plat  
Book Records, Historical Index Records, Serial Register and Case File for Federal Leases NMLC

067348, NMLC 067348-A, NMNM 030752 and NMNM 34462 in the United States Department of the Interior, Bureau of Land Management, State Office at Santa Fe, New Mexico pertaining to the S½ of Section 28 for the period from inception of the records to July 28, 2015 at 8:00 a.m., containing 540 pages, in two parts.

2. Abstract No. 15,124 certified by Currier Abstract Company as covering the records of Eddy County, New Mexico as to the mineral estate only pertaining to the S½ of Section 28 for the period from inception of the records to August 11, 2015 at 8:00 a.m., containing 2,147 pages, in fourteen parts.

**INSTRUMENTS**

1. Interoffice Memo dated August 17, 2015 from Paul Haden to Allen Harvey requesting this title opinion.

2. Copy of Letter Agreement dated July 7, 2015 between Mewbourne Oil Company and E.G.L. Resources, Inc. regarding Mewbourne's intent to acquire E.G.L.'s interest in the S½ of Section 28.

3. Copy of Operating Agreement dated February 5, 1979 covering the S½ of Section 28 limited to those depths from 4,000' below the surface to 11,420' below the surface and more particularly described below.

Based upon examination of the foregoing and subject to the title requirements hereinafter made, I find that as of July 28, 2015 at 8:00 a.m. as to the federal records and August 11, 2015 at 8:00 a.m. as to the records of Eddy County, New Mexico, title to captioned land is vested as follows:

**FEE TITLE**

**Surface Estate:**

**SW¼ and W½SE¼ of Section 28**

State of New Mexico . . . . . All

**E½SE¼ of Section 28**

Concho Operating LLC . . . . . 95%

Concho Oil & Gas LLC . . . . . 5%

**Mineral Estate:**

United States of America . . . . . All

**OIL AND GAS LEASEHOLD ESTATE**

**NE¼SW¼ of Section 28 (Federal Lease NMLC 067348)**

**Record Title:**

Yates Petroleum Corporation . . . . . 43.33333%

Sharbro Energy, LLC . . . . . 10.00000%

Yates Industries LLC . . . . . 3.33333%

The Heirs or devisees of Evelyn Dorothy Miller f/k/a Evelyn Dorothy Wetzler whom I believe to be James Forrest Calland (1/3), Pippa Suzanne Calland (1/3), Laurie A. Calland (1/6) and Robin E. Calland (1/6) . . . . . 6.25000%

The Heirs or devisees of Forrest Church Miller . . . . . 6.25000%

Glenn G. McKinney, as separate property . . . . . 6.25000%

Cheryl Lynn Miller, a widow . . . . . 1.56250%

|   |                                |
|---|--------------------------------|
| Tulipan LLC .....   | 1.66667% x 7/8 WI <sup>1</sup> |
| Gladys Anne Koontz, as separate property .....  | 2.51736% x 7/8 WI <sup>1</sup> |
| Gladys Anne Koontz, Personal Representative<br>of the Estate of Jackie Lois Duggan Barnes ..... | 1.73611% x 7/8 WI <sup>1</sup> |
| Shirley Nell Duggan McGehearty, as separate property<br>(Lease No. 1) .....                     | 4.07986% x 7/8 WI <sup>1</sup> |

<sup>1</sup> All parties are subject proportionately to an overriding royalty interest equal to 3 1/4% of 8/8 of production owned by Carol Neal Nantker and Wade H. Hover, Trustees.

<sup>2</sup> The interest of Yates Petroleum Corporation is subject to the following overriding royalty interests owned by the following parties:

|  |                     |
|--|---------------------|
| Yates Brothers, a partnership                    | 1/8 x 25% x 8/8     |
| Vergil O. Hopp, whose wife is Leota M. Hopp      | 2.5% x 6.25% x 8/8  |
| Betty L. Lewis, Trustee of the Betty Lewis Trust | 2.5% x 6.25% x 8/8  |
| D. E. Jacobs and wife, Georgie L. Jacobs         | 2.5% x 6.25% x 8/8  |
| Mrs. Floy H. Yates, a widow                      | 1.25% x 6.25% x 8/8 |
| Mary Virginia Oglesby, as separate property      | 1.25% x 6.25% x 8/8 |

~~Those depths from 4,000' below the surface to 11,420' below the surface:~~

|   |   |
|---|---|
| Yates Petroleum Corporation .....   | 43.33333% x 7/8 WI <sup>1,2,3</sup>           |
| Sharbro Energy, LLC .....   | 9.99999% x 7/8 WI <sup>1,3</sup>              |
| Yates Industries LLC .....  | 3.33334% x 7/8 WI <sup>1,3</sup>              |
| <del>E.G.L. Resources, Inc. ....</del>  | <del>25.00000% x 7/8 WI<sup>1,3,4</sup></del> |
| Jalapeno Corporation .....  | 5.00000% x 7/8 WI <sup>1,3</sup>              |
| Santo Legado LLLP .....   | 1.66667% x 7/8 WI <sup>1,3</sup>              |
| Marigold LLLP .....   | 1.66667% x 7/8 WI <sup>1,3</sup>              |
| Tulipan LLC .....   | 1.66667% x 7/8 WI <sup>1,3</sup>              |
| Gladys Anne Koontz, as separate property .....  | 2.51736% x 7/8 WI <sup>1,3</sup>              |
| Gladys Anne Koontz, Personal Representative<br>of the Estate of Jackie Lois Duggan Barnes ..... | 1.73611% x 7/8 WI <sup>1,3</sup>              |
| Shirley Nell Duggan McGehearty, as separate property .....                                      | 4.07986% x 7/8 WI <sup>1,3</sup>              |

~~<sup>1</sup>~~ All parties are subject proportionately to an overriding royalty interest equal to 3 1/4% of 8/8 of production owned by Carol Neal Nantker and Wade H. Hover, Trustees.

<sup>2</sup> The interest of Yates Petroleum Corporation is subject to the following overriding royalty interests owned by the following parties:

|  |                    |
|--|--------------------|
| Yates Brothers, a partnership                    | 1/8 x 25% x 8/8    |
| Vergil O. Hopp, whose wife is Leota M. Hopp      | 2.5% x 6.25% x 8/8 |
| Betty L. Lewis, Trustee of the Betty Lewis Trust | 2.5% x 6.25% x 8/8 |
| D. E. Jacobs, and wife Georgie L. Jacobs         | 2.5% x 6.25% x 8/8 |

Mrs. Floy H. Yates, a widow 1.25% x 6.25% x 8/8  
Mary Virginia Oglesby, as separate property 1.25% x 6.25% x 8/8

All parties are subject to an Operating Agreement dated February 5, 1979 covering the S½ of Section 29, limited to those depths from 4,000' below the surface to 11,420' below the surface. The interests under the Operating Agreement are set forth under "Contractual Interests" below.

The interest of E.G.L. Resources, Inc. is subject to an overriding royalty interest equal to 12½% of 8/8 of production, being the total overriding royalty interest for which E.G.L. Resources, Inc. is obligated to pay, subject to proportionate reduction, owned by the heirs or devisees of Evelyn Dorothy Miller f/k/a Evelyn Dorothy Wetzler whom I believe to be James Forrest Calland, Pippa Suzanne Calland, Laurie A. Calland, and Robin E. Calland (6.25%), the heirs or devisees of Forrest Church Miller (6.25%), Glenn G. McKinney, as separate property (6.25%), Cheryl Lynn Miller, a widow (1.5625%), Patricia Ann Conley, as separate property (1.5625%), Ann Elizabeth Miller, as separate property (1.5625%) and John William Miller, Jr., as separate property (1.5625%). At payout, the overriding royalty interest is automatically converted to a working interest equal to 1/2 of the interest assigned. Payout is defined as the date on which income attributable to a 75% of 8/8 revenue interest in each proration unit approved by the New Mexico Oil Conservation Division for a producing oil or gas well on the operating zone or on other lands that have been pooled with the operating zone, exclusive of production, conservation, severance and sales taxes, equals operator's share of all costs for drilling, completing and equipping the well on such proration unit, plus operator's share of all costs for operating the well to produce such amount.

NW¼SE¼ of Section 28 (Federal Lease NMLC 067348-A)

Record Title:

Yates Petroleum Corporation ..... All

Operating Rights:

Those depths from the surface to 2,139' below the surface:

Kenneth R. Wade and wife, Marci Wade ..... All of 7/8 WI<sup>1,2</sup>

<sup>1</sup> This interest is subject to an overriding royalty interest equal to 1/8 of 8/8 of production owned in equal shares by (1) the heirs of Madeline Lucille Parry, a widow, whom I believe to be Hugh Wm. Parry, II, Catherine Parry Rempe and Billie Sue Parry, and (2) Yates Petroleum Corporation.

<sup>2</sup> This interest is subject to an overriding royalty interest owned by Hanson Oil Corporation equal to 1/8 of its net interest after existing royalty, overrides and taxes as of May 1, 1971. Additionally, Hanson Oil Corporation is to receive its 12½% interest from salvage after deducting its part for plugging when the lease is abandoned and its 1/4 interest in the salvage of the present water flood plant and its auxiliary equipment when the flood is abandoned.

All depths below 2,139' below the surface:

Yates Petroleum Corporation ..... All of 7/8 WI<sup>1,2</sup>

<sup>1</sup> The interest of Yates Petroleum Corporation is subject to an overriding royalty interest equal to 6.25% of 8/8 of production owned by the heirs of Madeline Lucille Parry, a widow, whom I believe to be Hugh Wm. Parry, II, Catherine Parry Rempe and Billie Sue Parry.

<sup>2</sup> The interest of Yates Petroleum Corporation is subject to an Operating Agreement dated February 5, 1979 covering the S½ of Section 29, limited to those depths from 4,000' below the surface to 11,420' below the surface. The interests under the Operating Agreement are set forth under "Contractual Interests" below.

S $\frac{1}{2}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ , and NW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 28 (Federal Lease NMNM 030752)

Record Title:

|  |     |
|--|-----|
| Trigg Oil & Gas Limited Partnership .....  | 1/2 |
| Nationsbank d/b/a Bank of America, Agent and<br>Attorney-in-Fact f/b/o the T. J. and Mary Ray Sivley Trust ..... | 3/8 |
| Wells Fargo Bank, N.A., Trustee of the<br>Wynn Living Trust and the Wynn Survivor Trust .....                    | 1/8 |

Operating Rights:

S $\frac{1}{2}$ SW $\frac{1}{4}$  and NW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 28, limited to those depths from the surface to 4,000' below the surface:

|  |                             |
|--|-----------------------------|
| David G. Hammond, marital status unknown ..... | 1/2 x 7/8 WI <sup>1,2</sup> |
| Sarah C. Webb, a single woman .....            | 1/2 x 7/8 WI <sup>1,2</sup> |

<sup>1</sup> These interests are subject to an obligation equal to \$840,000 payable out of 5% of the market value at the wells of all oil and gas which is produced, saved and marketed from the Lease covering the NW $\frac{1}{4}$  and N $\frac{1}{2}$ SW $\frac{1}{4}$  of Section 21, the W $\frac{1}{2}$ NW $\frac{1}{4}$  of Section 22, the NE $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$  and SE $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 27 and the S $\frac{1}{2}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ , NW $\frac{1}{4}$ SW $\frac{1}{4}$  and SW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 28 owned by Nancy J. Allen (1/3), Susan J. Croft (1/3) and Jamie E. Jennings (1/3).

<sup>2</sup> These interests are subject proportionately to an overriding royalty interest equal to 2.5% of 1/2 of 8/8 of production in the SW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 28, limited to those depths from 1,992' subsurface to 4,000' subsurface, in the SE $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 28, limited to those depths from 2,021' subsurface to 4,000' subsurface and in the NW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 28, limited to those depths from 2,030' subsurface to 4,000' subsurface owned by PetroYates, Inc.

S $\frac{1}{2}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$  and NW $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 28, limited to those depths from 4,000' below the surface to 11,420' below the surface:

|                             |                                    |
|-----------------------------|------------------------------------|
| E.G.L. Resources, Inc. .... | All of 7/8 WI <sup>1,2,3,4,5</sup> |
|-----------------------------|------------------------------------|

<sup>1</sup> This interest is subject to an obligation equal to \$840,000 payable out of 5% of the market value at the wells of all oil and gas which is produced, saved and marketed from the Lease covering the NW $\frac{1}{4}$  and N $\frac{1}{2}$ SW $\frac{1}{4}$  of Section 21, the W $\frac{1}{2}$ NW $\frac{1}{4}$  of Section 22, the NE $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$  and SE $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 27 and the S $\frac{1}{2}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$ , NW $\frac{1}{4}$ SW $\frac{1}{4}$  and SW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 28 owned by Nancy J. Allen (1/3), Susan J. Croft (1/3) and Jamie E. Jennings (1/3).

<sup>2</sup> This interest is subject to an overriding royalty interest equal to 5% of 1/2 of 8/8 owned by PetroYates, Inc.

<sup>3</sup> Before payout, as defined in Assignment Nos. 96, 97, and 98 below, this interest is subject to an overriding royalty interest equal to 12 $\frac{1}{2}$ %, being the total overriding royalty interest, subject to proportionate reduction, owned by Trigg Oil & Gas Limited Partnership, NationsBank, as Agent f/b/o the T. J. and Mary Ray Sivley Trust and Wells Fargo Bank, N.A., Trustee of the Wynn Living Trust and the Wynn Survivor Trust. After payout, the overriding royalty interests are converted to working interests equal to 1/2 of the interest conveyed owned by Mewbourne Oil Company (25%) and E.G.L. Resources Inc. (25%). The after payout interest of Mewbourne Oil Company is subject to an overriding royalty interest equal to 25% of production less existing lease burdens, subject to proportionate reduction, owned by Trigg Oil & Gas Limited Partnership.

<sup>4</sup> I note that the after-payout ownership in Note 3 above does not include the wellbore for the Trigg-Jennings Com No. 1 Well located 660' FSL and 1,980' FWL of Section 28. The wellbore is owned by E.G.L. Resources, Inc.

<sup>5</sup> This interest is subject to an Operating Agreement dated February 5, 1979 covering the S½ of Section 28 limited to those depths from 4,000' below the surface to 11,420' below the surface. The Interests under the Operating Agreement are set forth under "Contractual Rights" below.

SW¼SE¼ and NE¼SE¼ of Section 28, limited to those depths from the surface to 4,000' below the surface, and S½SW¼, SW¼SE¼, NE¼SE¼ and NW¼SW¼ of Section 28, limited to those depths below 11,420' below the surface:

Trigg Oil & Gas Limited Partnership ..... 1/2 x 7/8 WI<sup>1,2</sup>

NationsBank d/b/a Bank of America,  
Agent and Attorney-in-Fact f/b/o  
the T. J. and Mary Ray Sivley Trust ..... 3/8 x 7/8 WI<sup>1</sup>

Harry B. Hinkle, marital status unknown ..... 1/16 x 7/8 WI<sup>1</sup>

Todd E. Westmoreland, marital status unknown ..... 1/32 x 7/8 WI<sup>1</sup>

Barry Lee Bradford, marital status unknown ..... 1/32 x 7/8 WI<sup>1</sup>

<sup>1</sup> These interests are subject to an obligation equal to \$840,000 payable out of 5% of the market value at the wells of all oil and gas which is produced, saved and marketed from the Lease covering the NW¼ and N½SW¼ of Section 21, the W½NW¼ of Section 22, the NE¼, W½SE¼ and SE¼SW¼ of Section 27 and the S½SW¼, SW¼SE¼, NE¼SE¼, NW¼SW¼ and SW¼NW¼ of Section 28 owned by Nancy J. Allen (1/3), Susan J. Croft (1/3) and Jamie E. Jennings (1/3).

<sup>2</sup> The interest of Trigg Oil & Gas Limited Partnership is subject to an overriding royalty interest equal to 2.5% of 1/2 of 8/8 of production owned by PetroYates, Inc.

SE¼SE¼ of Section 28 (Federal Lease NMNM 34462)

Record Title and Operating Rights:

Khody Land & Minerals Company ..... All of 7/8 WI<sup>1,2</sup>

<sup>1</sup> The royalty paid on the Lease is based on a sliding scale as described on Schedule B attached to the lease, ranging from 12.5% to 25% on oil and from 12.5% to 16½% on gas.

<sup>2</sup> The interest of Khody Land & Minerals Company is subject to an Operating Agreement dated February 5, 1979 covering the S½ of Section 28 limited to those depths from 4,000' below the surface to 11,420' below the surface. The interests under the Operating Agreement are set forth under "Contractual Interests" below.

Contractual Interests under Operating Agreement dated February 5, 1979 covering the S½ of Section 28, limited to those depths from 4,000' below the surface to 11,420' below the surface:

|                               | Before Payout           | After Payout |
|-------------------------------|-------------------------|--------------|
| Khody Land & Minerals Company | 12.500000%              | 12.500000%   |
| Yates Petroleum Corporation   | 17.916667%              | 17.916667%   |
| EIG:LR Resources, Inc.        | 65.625000% <sup>2</sup> | 50.000000%   |
| Jalapeno Corporation          | .625000%                | .625000%     |
| Santa Legado LLLP             | .208333%                | .208333%     |
| Marigold LLLP                 | .208333%                | .208333%     |
| Tulipan LLC                   | .208334%                | .208334%     |

|  | <u>Before Payout</u> | <u>After Payout</u> |
|--|----------------------|---------------------|
| Sharbro Energy, LLC                                  | 1.250000%            | 1.250000%           |
| Yates Industries LLC                                 | .416667%             | .416667%            |
| The Estate of Jackie Lois Duggan Barnes              | .217014%             | .217014%            |
| Shirley Nell Duggan McGehearty, as separate property | .509983%             | .509983%            |
| Gladys Anne Koontz, as separate property             | .314669%             | .314669%            |
| Mewbourne Oil Company                                | -0-                  | 15.625000%          |
| <b>Total</b>   | <b>100%</b>          | <b>100%</b>         |

EXISTING OIL AND GAS LEASES

Lease No. 1:

Serial No.: NMLC 067348.

Date: July 1, 1949.

Recorded: Apparently unrecorded and there is no necessity to do so.

Lessor: United States of America.

Lessee: Dixon & Yates Oil Company.

Lands Covered: Township 18 South, Range 29 East, N.M.P.M.  
Section 28: NE $\frac{1}{4}$ , E $\frac{1}{2}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NW $\frac{1}{4}$  and NE $\frac{1}{4}$ SW $\frac{1}{4}$ ,  
containing 320 acres, more or less.

Primary Term: Five years from date, but extended an additional five years to July 1, 1959, and further extended an additional two years to July 1, 1961 by virtue of a Partial Assignment.

Rentals: \$.50 per acre for the first lease year, no rental for the second and third lease years, \$.25 per acre for the fourth and fifth lease years, and \$.50 per acre for the sixth and each succeeding year.

Royalties: 1/8 on oil and gas.

Minimum Royalty: Minimum royalty in lieu of rental equal to \$1.00 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of \$1.00 per acre.

Lease Form: 4-213 (August 1948).

Lease Status: The lease is in a minimum royalty status.

Lease History: Federal Lease NMLC 067348 originally covered the following described lands:  
Township 18 South, Range 29 East, N.M.P.M.  
Section 28: NE $\frac{1}{4}$ , E $\frac{1}{2}$ NW $\frac{1}{4}$ , NW $\frac{1}{4}$ NW $\frac{1}{4}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$  and NW $\frac{1}{4}$ SE $\frac{1}{4}$ .  
  
By virtue of a Partial Assignment approved June 1, 1959, the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 28 was segregated out of Lease NMLC 067348 and assigned a new Serial Number NMLC 067348-A. The

remaining lands retained Serial Number NMLC 067348. The first producible well on the base lease was completed on the NE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 28 on February 3, 1960.

Lease No. 2:

Serial No.: NMLC 067348-A. (I note that NMLC 067348-A was segregated out of NMLC 067348).

Date: Effective July 1, 1949.

Recorded: Apparently unrecorded and there is no necessity to do so.

Lessor: United States of America.

Lessee: Dixon & Yates Oil Company.

Lands Covered: Township 18 South, Range 29 East, N.M.P.M.  
Section 28: NW $\frac{1}{4}$ SE $\frac{1}{4}$ ,  
containing 40 acres, more or less.

Primary Term: Five years from date. By Decision dated May 25, 1961, the primary term was extended until February 3, 1962.

Rentals: Same as Lease No. 1.

Royalties: 1/8 on oil and gas.

Minimum Royalty: Same as Lease No. 1.

Lease Form: 4-213 (August 1948).

Lease Status: The lease is in a minimum royalty status.

Lease History: By Partial Assignment approved June 1, 1959, the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 28 was segregated out of NMLC 067348 and given a new Serial Number NMLC 067348-A. The first producible well on the segregated lease was completed on April 11, 1961.

Lease No. 3:

Serial No.: NMNM 030752.

Date: Effective August 1, 1957.

Recorded: Apparently unrecorded and there is no necessity to do so.

Lessor: United States of America.

Lessee: Howard W. Jennings.

Lands Covered: Township 18 South, Range 29 East, N.M.P.M.  
Section 21: NW $\frac{1}{4}$  and N $\frac{1}{4}$ SW $\frac{1}{4}$   
Section 22: W $\frac{1}{2}$ NW $\frac{1}{4}$   
Section 27: NE $\frac{1}{4}$ , W $\frac{1}{4}$ SE $\frac{1}{4}$ , and SE $\frac{1}{4}$ SW $\frac{1}{4}$   
Section 28: SW $\frac{1}{4}$ NW $\frac{1}{4}$ , W $\frac{1}{2}$ SW $\frac{1}{4}$ , SE $\frac{1}{4}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$  and NE $\frac{1}{4}$ SE $\frac{1}{4}$ .  
containing 840 acres, more or less.

Primary Term: Five years from date.

Rentals: Originally \$.50 per acre or fraction thereof for the first lease year; however, by Decision dated July 7, 1958 the lands included in the lease were determined to be in a known geologic structure.

Consequently, the rental rate was increased to \$1.00 per acre or fraction thereof.

Royalties: 1/8 on oil and gas.

Minimum Royalty: Minimum royalty of not less than \$1.00 per acre at the expiration of each lease year, or if there is production, the difference between actual royalty paid during the year and the prescribed minimum royalty of \$1.00 per acre provided that on unitized leases the minimum royalty shall be payable only on the participating acreage.

Lease Form: Form No. 4-1158 5th Edition (September 1954).

Lease Status: The lease is in a minimum royalty status.

Lease History: Originally Federal Lease NMNM 034462 covered the following lands:

Township 18 South, Range 29 East, N.M.P.M.

Section 21: NW¼, N½SW¼  
Section 22: W½NW¼  
Section 27: NE¼, W½SE¼, SE¼SW¼  
Section 28: S½S½, NE¼SE¼, NW¼SW¼, and SW¼NW¼, containing 880 acres, more or less.

By Partial Assignment approved August 1, 1959, the SE¼SE¼ of Section 28 was segregated out of NMNM 030752 and assigned a new Serial Number NMNM 030752-A. The records indicate that the first productive well on subject lands was completed on June 10, 1961 on the SW¼NW¼ of Section 28. By Decision dated September 18, 1990, Federal Lease NMNM 030752 was no longer committed to Communitization Agreement SCR-52, termination being effective April 10, 1990. The Decision stated that the lease was in a producing status and minimum royalty or royalty will continue to be due and payable. This extension was granted in the event production ceased before the expiration date of the two year extension. By Decision dated January 9, 2015, Communitization Agreement CA SRN-1567 terminated. Therefore, Federal Lease NMNM 030752 which is held by actual production, was automatically extended two years through December 1, 2011 and for so long thereafter as oil and gas is produced in paying quantities.

Lease No. 4:

Serial No.: NMNM 034462.

Date: Effective November 1, 1978.

Recorded: Apparently unrecorded and there is no necessity to do so.

Lessor: United States of America.

Lessee: Depco, Inc.

Lands Covered: Township 18 South, Range 29 East, N.M.P.M.  
Section 27: SW¼SW¼ and SE¼SE¼  
Section 28: SE¼SE¼  
Section 34: E½NE¼  
  
containing 200 acres, more or less.

Primary Term: Five years from date.

Annual Rentals: On or before the first day of the month in which the lease was issued and for each lease year thereafter prior to a discovery of oil and gas on the leased lands, an annual rental of \$2.00 per acre or fraction thereof.

2011, recorded in Book 897, page 641, Eddy County Records, to describe Lease Nos. 1 and 3 as to those depths from 4,000' below the surface to 11,420' below the surface and to fix the acknowledgments. This assignment has not been filed with or approved by the Bureau of Land Management.

141. By Term Assignment dated effective July 13, 2015, recorded in Book 1032, page 177, Eddy County Records, Trigg Oil & Gas Limited Partnership assigned to Mewbourne Oil Company all of its operating rights in the lease, limited to those depths from 4,000' below the surface to 11,420' below the surface. The assignor reserved an overriding royalty interest equal to 25% less existing lease burdens, subject to proportionate reduction. The assignment is for a term of three years from effective date. The assignment requires consent from the assignor before the assignee can assign any part of the assignment. It was made subject to the Operating Agreement dated February 5, 1979 covering the S½ of Section 28. The assignment excludes contractual working interests in the Trigg-Jennings Com No. 1 Well. This assignment has not been filed with or approved by the Bureau of Land Management.

Assignments affecting Lease No. 4:

142. By Quitclaim Deed dated March 1, 1979, approved by Decision of the Bureau of Land Management dated January 31, 1980, recorded in Book 170, page 450, Miscellaneous Records, NICOR Exploration Company assigned to DEPCO, Inc. all of its interest in the lease.

143. By Certificate of Merger dated August 30, 1988, recorded in Book 31, page 197, Eddy County Records, DEPCO, Inc. merged with and into DEKALB Corporation. By Decision dated May 15, 1989, the Bureau of Land Management stated that they received sufficient evidence of the merger of DEPCO, Inc. with and into DEKALB Corporation.

144. By Certificate of Amendment dated August 31, 1988, recorded in Book 31, page 201, Eddy County Records, DEKALB Corporation changed its name to DEKALB Energy Company. By Decision dated May 15, 1989, the Bureau of Land Management recognized the name change of DEKALB Corporation to DEKALB Energy Company.

145. By Assignment of Record Title dated October 16, 1992, approved by the Bureau of Land Management effective November 1, 1992, DEKALB Energy Company assigned to Louis Dreyfus Gas Holdings Inc. all of the record title interest in the lease. A counterpart to this assignment on a different form dated effective July 1, 1992 is recorded in Book 137, page 459, Eddy County Records. The counterpart is made subject to an Asset Purchase and Sale Agreement dated effective July 1, 1992 between the parties.

146. By Certificate of Merger dated September 9, 1993, recorded in Book 168, page 560, Eddy County Records, Louis Dreyfus Gas Holdings Inc. merged with and into Bogart Oil Company. Then, by Certificate dated September 9, 1993, recorded in Book 168, page 568, Eddy County Records, Bogart Oil Company changed its name to Louis Dreyfus Natural Gas Corp. Finally, by Certificate of Merger dated October 31, 2001, recorded in Book 437, page 219, Eddy County Records, Louis Dreyfus Natural Gas Corp. merged with and into Dominion Oklahoma Texas Exploration & Production Inc. The Bureau of Land Management recognized the merger of Louis Dreyfus Natural Gas Corp. with and into Dominion Oklahoma Texas Exploration & Production Inc. by Notice dated October 12, 2001.

147. By Assignment of Record Title dated November 2, 2006, effective December 31, 2006, approved by the Bureau of Land Management effective February 1, 2007, Dominion Oklahoma Texas Exploration & Production Inc. assigned to Lobos Energy Partners, LLC all of the record title interest in the lease. A counterpart to this assignment on a different form is recorded in Book 668, page 893, Eddy County Records. The counterpart is made subject to a Purchase and Sale Agreement dated September 14, 2006 between the parties.

148. By Certificate of Merger dated November 24, 2009, recorded in Book 799, page 234, Eddy County Records, Lobos Energy Partners, LLC merged with and into Khody Land & Minerals Company. By Decision dated February 1, 2010, the Bureau of Land Management recognized the merger of Lobos Energy Partners, LLC with and into Khody Land & Minerals Company effective November 24, 2009.

OPERATING AGREEMENT

The materials examined include a copy of an Operating Agreement dated February 5, 1979 prepared on A.A.P.L. Form 610-1977 which designates Hondo Drilling Company as operator. The

Contract Area described on the attached Exhibit "A" is the S½ of Section 28 limited to those depths from 4,000' below the surface to 100' below the total depth drilled in the initial test well. The parties to the agreement and their respective interests are as follows:

|                             | <u>Before Payout</u> | <u>After Payout</u> |
|-----------------------------|----------------------|---------------------|
| Hondo Drilling Company      | 59.765625%           | 38.671875%          |
| T. J. Sivley                | 5.859375%            | 5.859375%           |
| DEPCO, Inc.                 | 12.5%                | 12.5%               |
| Yates Petroleum Corporation | 16.875%              | 16.875%             |
| Dixon & Yates Oil Company   | 3.125%               | 3.125%              |
| Louise D. Yates             | .625%                | .625%               |
| S. P. Yates                 | .625%                | .625%               |
| Martin Yates, III           | .625%                | .625%               |
| W. T. Wynn                  | -0-                  | 3.90625%            |
| John H. Trigg               | -0-                  | 15.625%             |
| John William Miller         | -0-                  | .390625%            |
| Forrest Church Miller       | -0-                  | .390625%            |
| Laredo Gertrude McKinney    | -0-                  | .390625%            |
| Evelyn Dorothy Miller       | -0-                  | .390625%            |
|                             | <u>100%</u>          | <u>100%</u>         |

According to the agreement, on or before March 15, 1979 the operator was to commence the drilling of a well at a lawful location on the S½ of Section 28 and thereafter continue drilling the well with due diligence to a depth sufficient to adequately test the Morrow series of the Pennsylvanian formation or to 11,500' below the surface, whichever is the lesser depth, unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impracticable, is encountered at a lesser depth or unless all parties agree to complete or abandon the well at a lesser depth. Each party shall pay or deliver or cause to be paid or delivered all royalties to the extent of 12½% of 8/8 due on its share of production. The agreement provides for a 100%/300%/300% non-consent penalty. The agreement also contains a preferential right to purchase provision which states as follows:

Should any party desire to sell all or any part of its interest under this agreement, or its rights and interest in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of 10 days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this option right is exercised, the purchasing party shall share the purchased interest in the proportions of the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interest, or to dispose of its interest by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns the majority of the stock.

The agreement is to remain in force and effect as long as any well is capable of production in paying quantities, plus an additional 90 days. The copy of the agreement submitted for my examination was executed by Hondo Drilling Company, T. J. Sivley, W. T. Wynn, John William Miller, Forrest Church Miller, Laredo Gertrude McKinney, Evelyn Dorothy Miller and Don C. Bell, II and Sidney C. Skaar as Co-Trustees in reorganization proceedings for John H. Trigg and Pauline V. Trigg.

Chapter 5 (H.B. 827). According to this Act, prior to initial entry upon the land for activities that do not disturb the surface, including inspections, staking, surveys, measurements and general evaluation of proposed routes and sites for oil and gas operations, the operator shall provide at least five business days notice by certified mail or hand delivery to the surface owner. In addition, no less than thirty days before first entering the surface of the land to conduct oil and gas operations, an operator shall, by certified mail or hand delivery, give the surface owner notice of the planned oil and gas operations as more particularly described in the Act. In an action brought pursuant to the Surface Owners Protection Act, if the court finds that compensation is owed under Section 3 of the Act, the court may also award the prevailing party attorney's fees, costs and treble damages if the court finds by clearly convincing evidence that the operator willfully and knowingly entered upon the premises for the purposes of commencing the drilling of a well without giving notice of the entry as required by Subsection B of Section 4 of the Surface Owners Protection Act or without a surface use and compensation agreement with the surface owner and before depositing a bond or other surety pursuant to Section 5 of the Surface Owners Protection Act or either the surface owner or the operator willfully and knowingly violated the surface use and compensation agreement.

**REQUIREMENT:** Prior to entering upon any portion of captioned land which is private fee surface land, you must comply with the notice provisions of the Surface Owners Protection Act.

66.

The Commissioner of Public Lands has issued a notice that pursuant to Section 18-5-9 NMSA 1978, it is a criminal offense to willfully destroy an archeological site on state trust lands such as the captioned lands. The notice does not require a clearance survey as a prerequisite to entry.

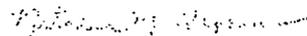
**REQUIREMENT:** You must take care that your surface activities on the NW¼ of Section 28 will not interfere with any recognized archeological site. In this connection, you should contact the office of the State Archeologist in order to be certain that drilling activities will not interfere with any archeological areas that may be located on captioned land.

#### COMMENTS

1. Insofar as this opinion is based upon the prior title opinion submitted for my examination, this opinion is qualified accordingly.

2. I do not cover questions of boundary or area, inchoate liens, unrecorded instruments or production purchase contracts, prior dedication of gas reserves, errors or omissions of abstractors or public officials, compliance with or enforcement of any regulations or orders of governmental authorities having jurisdiction, the existence on the premises of contaminants or hazardous materials, naturally occurring or otherwise, environmental matters or any other matters not covered by the materials examined or which could be determined only by an investigation upon the ground or by a survey of the land. This opinion is rendered solely and exclusively for the use and benefit of MEWBOURNE OIL COMPANY and for no other party and may be relied upon only by it.

Respectfully submitted,



Natalie M. Stephens

NMS/sb