

DON G. MCCORMICK
JAY W. FORBES
THOMAS L. MAREK
ROGER E. YARBRO
JOHN M. CARAWAY
CAS TABOR
MICHAEL E. DARGEL

MCCORMICK AND FORBES
ATTORNEYS AT LAW
BUJAC BUILDING
P. O. BOX 1718
CARLSBAD, NEW MEXICO 88220
31 January 1983

TELEPHONE 885-4171
AREA CODE 505

Re: Original Division Order Title
Opinion covering production of
dry gas and associated liquid
hydrocarbons from the #1 Citco-
Cavalier 28 Well, to which the
following lands in Eddy County,
New Mexico have been pooled and
unitized:

Township 23 South, Range 28 East,
N.M.P.M.

Section 28: E/2, a total of 320
acres, more or less

Belco Petroleum Corporation
10000 Old Katy Road, Suite 100
Houston, Texas 77055

Attention: Mr. Paul G. Darras

Gentlemen:

Upon your request and for division order title opinion purposes, we have examined the following:

1. PRIOR TITLE OPINIONS:

1. Opinion dated 23 January 1978, from David O. Dillon to Cities Service Company covering the SW/4SE/4 of Section 28 and based upon abstracts certified to 21 December 1977, at 8:00 o'clock a.m..

2. Opinion dated 15 February 1978, from Linda McQuillen Kulp to Cities Service Company, covering the SW/4NW/4SE/4, and that portion of the SE/4NE/4, NE/4SE/4, and SW/4SE/4* lying North and East of the A.T.& S.F. Railroad right of way and based upon abstracts certified to 20 January 1978, at 8:00 o'clock a.m..

*See advisory requirement herein.

3. Opinion dated 27 February 1978, from Linda McQuillen Kulp to Cities Service Company, covering the NE/4NW/4SE/4 and based upon abstracts certified to 26 January 1978, at 8:00 o'clock a.m..

4. Opinion dated 27 February 1978, from Linda McQuillen Kulp in favor of Cities Service Company, covering the N/2NE/4, NW/4NW/4SE/4, and that part of the SW/4NE/4 and SE/4NE/4 lying South and West of the A.T.&S.F. Railroad right of way and based upon abstracts down to 1 February 1978, at 8:00 o'clock a.m..

5. Opinion dated 1 March 1978, from Linda McQuillen Kulp to Cities Service Company, covering that portion of the NE/4SE/4 of Section 28, South and West of the A.T.&S.F. Railroad right of way and based upon abstracts certified down to 10 February 1978, at 8:00 o'clock a.m..

INSTRUMENTS EXAMINED:

1. Copy of designation of pooled unit between Belco Petroleum Corporation and Cities Service Company, et al, under date of 26 November 1980, and covering the E/2 of Section 28, Township 23 South, Range 28 East, N.M.P.M..

Posted 2-8-83
imp
Pooled
E/2 Sec. 28
Cavalier #1

2. Copy of Farm-Out Agreement between A. G. Hamilton and Belco Petroleum Corporation, dated 1 October 1980.
3. Copy of Well Status Report on the subject well.
4. Copy of Request for Authorization to Transport Oil and Natural Gas, dated 25 November 1981.
5. Copy of Model Form Operating Agreement AAPL 610-1977, dated 3 October 1980, between Belco Petroleum Corporation, as "Operator" and Merland, Inc., et al, as "Non-Operators".
6. Assignment, Bill of Sale, and Conveyance, effective 1 November 1982, at 7:00 o'clock a.m., recorded in Book 218, Page 1031, Miscellaneous Records of Eddy County, New Mexico, from Coquina Oil Corporation, et al, as "Assignor" and Kaiser-Francis Oil Company, as "Assignee".
7. Copy of Letter dated 26 November 1980, from Cities Service Company to Belco Petroleum Corporation, Midland Land Department, giving consent of Assignment of Interest to Coquina Oil Corporation in subject well and other noncaptioned lands.
8. Copy of Assignment of Oil and Gas Lease from A.G. Hamilton to Belco Petroleum Corporation, dated 22 March 1982, recorded in Book 214, Page 754, Miscellaneous Records of Eddy County, New Mexico.
9. Letter Agreement dated 1 December 1980 between Coquina Oil Corporation and Belco Petroleum Corporation, whereby Belco agreed to assign 30% of its interest in the acreage comprising the unit to Coquina Oil Corporation in exchange for Coquina paying a total of 29.0625% of the drilling and completion costs for the subject well.
10. Copy of Farm-Out Agreement between Cities Service Company and Belco Petroleum Corporation under date of 7 November 1980.
11. Power of Attorney dated 1 June 1971, from Mary Beth Guitar, a widow, et al, in favor of Earl B. Guitar, John Guitar, Jr. and Mary Guitar Polk, recorded in Book 79, Page 760, Miscellaneous Records of Eddy County.
12. Power of Attorney from Virginia Guitar Witherspoon, et al, in favor of Earl B. Guitar, John Guitar, Jr. and Mary Guitar Polk, dated 19 March 1971, recorded in Book 78, Page 629, Miscellaneous Records.
13. Court File from Cause #PB-82-74, District Court of Eddy County, New Mexico, styled "In the Matter of the Estate of Catherine Guitar Woods, Deceased".

ABSTRACTS EXAMINED:

1. Supplemental Abstract No. 82,179, Guaranty Title Company, Pages 1 through 67, inclusive, and covering the E/2 of Section 28, EXCEPT the SE/4NW/4SE/4 and that part of the SE/4SE/4 lying South and West of the railroad, and that part of the SW/4SE/4 lying East and North of the railroad. This abstract certifies coverage of the various tracts which are included from dates which are consistent with the close-out dates of the abstracts mentioned in the prior title opinions tabulated above. The close-out date of Abstract 82,179 is 19 July 1982, at 8:00 o'clock a.m. and traces mineral title only in the tracts covered. This abstract excepts proceedings in Case #PB-82-74, styled "In the Matter of the Estate of Catherine Guitar Woods, Deceased".
2. Abstract No. 82,226, Guaranty Title Company, Pages 1 through 72, inclusive, and covering the SW/4NE/4 lying East and North of the A.T.&S.F. Railroad from inception of records to 13 September 1982 at 8:00 o'clock a.m. This abstract certifies complete coverage of the referenced tract when taken in connection with Abstract No. 82,182 and supplemental Abstract No. 82,179.

Mealand

3. Abstract of Title No. (82,182), Guaranty Title Company, Pages 1 through 142, inclusive, and tracing title of the mineral estate of the SE/4NW/4SE/4 of said Section 28 from inception of the records to 21 July 1982, at 8:00 o'clock a.m..

4. Abstract No. 82,189, Guaranty Title Company, Pages 1 through 119, inclusive, and Abstract Certificate No. 82,189A, which, taken together certify coverage of the SE/4SE/4 of Section 28 from inception of the records to 28 July 1982, at 8:00 o'clock a.m..

BASING OUR OPINION SOLELY UPON THE FOREGOING PRIOR TITLE OPINIONS, INSTRUMENTS EXAMINED AND ABSTRACTS EXAMINED, AND SUBJECT TO ANY REQUIREMENTS HEREINAFTER MADE, WE REPORT TITLE FOR DIVISION ORDER PURPOSES AS FOLLOWS:

OWNERSHIP OF PRODUCTION OF DRY GAS AND ASSOCIATED LIQUID HYDROCARBONS PRODUCED FROM THE #1 CITCO-CAVALIER 28 WELL DOWN TO A DEPTH OF 13,000 FEET SUBSURFACE AND BEFORE PAY-OUT:

Note: As used below, R.I. denotes Royalty Interest, O.R.I. denotes Overriding Royalty Interest, and W.I. denotes Working Interest.

Note: This unit purportedly contains 320 surface contiguous acres.

I.
SW/4SE/4 - 40 ACRES

<u>INTEREST OWNER</u>		<u>NET REVENUE INTEREST</u>
Robert J. Jones:	1/18x3/16x40/320:	.00130209 R.I.
Charles R. Jones:	1/18x3/16x40/320:	.00130208 R.I.
Mae Jones Jackson:	1/18x3/16x40/320:	.00130208 R.I.
Mary Jones Leonard:	1/18x3/16x40/320:	.00130209 R.I.
Marie Jones Jordan:	1/18x3/16x40/320:	.00130208 R.I.
Maxine Jones Lanmerman:	1/18x3/16x40/320:	.00130208 R.I.
Earl Cochell:	1/6x3/16x40/320:	.00390625 R.I.
Mildred Delilah Cassidy Lakey:	1/6x3/16x40/320:	.00390625 R.I.
Charles Arthur Cassidy:	1/3x3/16x40/320:	.00781250 R.I.
Cities Service Company:	6.25%x40/320:	.00781250 R.I. <i>OR</i> ✓
Coquina Oil Corp., from date of first sales down to 11/1/82, at 7:00 a.m.:	30%x75%x40/320:	.02812500 W.I.
<u>OR</u>		
Kaiser-Francis Oil Co. from 11/1/82 at 7:00 a.m.:	30%x75%x40/320:	.02812500 W.I. ✓
Belco Petroleum Corporation:	70%x75%x40/320:	<u>.06562500 W.I.</u>
	Subtotal for Tract:	.12500000

II.

SW/4NW/4SE/4; that portion of the SE/4NE/4 and the NE/4SE/4 and the SW/4NE/4 lying North & East of the A.T.&S.F. R.R. Right of Way

Acreage: SW/4NW/4SE/4: 10 acres
 SE/4NE/4 North & East of railroad: 39.237761 acres
 NE/4SE/4 North & East of railroad: 19.958105 acres
 SW/4NE/4 North & East of railroad: 7.46097 acres
 Total Acreage of Tract: 76.656836 acres

Pardue Farms, a New Mexico Limited Partnership: 1/4x76.656836/320: .05988815 R.I.

Coquina Oil Corp., from date of first sales to 11/1/82 at 7:00 a.m.: 30%x75%x76.656836/320: .05389934 W.I.

OR

Kaiser-Francis Oil Co. from 11/1/82 at 7:00 a.m.: 30%x75%x76.656836/320: .05389934 W.I. ✓

Belco Petroleum Corporation: 70%x75%x76.656836/320: .12576512 W.I.

Subtotal for Tract: .23955261

III.

NE/4NW/4SE/4 - .10 ACRES

C. P. Bunch, whose wife is Marjorie Bunch: 1/4x10/320: .00781250 R.I.

Coquina Oil Corp., from date of first sales to 11/1/82 at 7:00 a.m.: 30%x75%x10/320: .00703125 W.I.

OR

Kaiser-Francis Oil Co., from 11/1/82 at 7:00 a.m.: 30%x75%x10/320: .00703125 W.I.

Belco Petroleum Corporation: 70%x75%x10/320: .01640625 W.I.

Subtotal for Tract: .03125000

IV.

That part of the SE/4NE/4 lying South & West of the A.T.&S.F. Railroad, (Also described as the SW/4SE/4NE/4 lying South & West of the A.T.&S.F. Railroad)
.76223900 Acres

Pardue Farms, a New Mexico Limited Partnership (unleased): .7622390/320: .00238200 W.I.

Subtotal for Tract: .00238200

V.

N/2NE/4, NW/4NW/4SE/4, and that portion of the SW/4NE/4 and NE/4SE/4 lying South & West of the A.T.&S.F. Railroad right of way

Acreage: N/2NE/4: 80 acres
 NW/4NW/4SE/4: 10 acres
 Portion of SW/4NE/4 lying South & West of RR: 32.53903 acres
 Portion of NE/4SE/4 lying South & West of RR: 20.041895 acres
 Total Acreage of Tract: 142.580925 acres

INTEREST OWNERNET REVENUE INTEREST

Betty Witherspoon Nevill, Trustee of Gayle Nevill Trust:	1/8x1/8x1/4x142. 580925/320(.44556539):	.00174049 R.I.
Betty Witherspoon Nevill, Trustee of Virginia Nevill Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
Guy P. Witherspoon, Jr., Trustee of the Jan Witherspoon Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
Guy P. Witherspoon, Jr., Trustee of Guy Pittman Witherspoon III Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
John Guitar Witherspoon, Trustee of John Guitar Witherspoon, Jr., Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
John Guitar Witherspoon, Trustee of Whitten Guitar Witherspoon Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
John Guitar Witherspoon, Trustee of Brett Guitar Witherspoon Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
John Guitar Witherspoon, Trustee of Wende Guitar Witherspoon Trust:	1/8x1/8x1/4x .44556539:	.00174049 R.I.
Dennis Woods, Jr. & Jack G. Woods, Domiciliary Foreign Personal Representatives of the Estate of Catherine Guitar Woods, Deceased:	1/8x1/4x.44556539:	.01392391 R.I.
Laura Jean Hofer:	1/3x1/8x1/4x .44556539:	.00464130 R.I.
Ruth Guitar Murchison:	1/3x1/8x1/4x .44556539:	.00464130 R.I.
Barbara Lee Backman:	1/3x1/8x1/4x .44556539:	.00464130 R.I.
John Guitar, III, Personal Representative of the Estate of John Guitar, Jr., Deceased:	1/8x1/4x.44556539:	.01392391 R.I.
Mary Beth Guitar, a widow:	1/2x1/8x1/4x .44556539:	.00696196 R.I.
Repps B. Guitar, Jr.:	1/8x1/8x1/4x .44556539:	.00174050 R.I.
Pressley H. Guitar:	1/8x1/8x1/4x .44556539:	.00174050 R.I.
Marilyn Guitar Galusha:	1/8x1/8x1/4x .44556539:	.00174050 R.I.
Leslie David Guitar:	1/8x1/8x1/4x .44556539:	.00174050 R.I.

<u>INTEREST OWNER</u>		<u>NET REVENUE INTEREST</u>
Mary Guitar Polk, a widow:	1/8x1/4x.44556539:	.01392391 R.I.
Ruth Guitar Alexander:	1/8x1/4x.44556539:	.01392391 R.I.
Earl B. Guitar:	1/8x1/4x.44556539:	.01392392 R.I.
Coquina Oil Corp. from date of first sales to 11/1/82 at 7:00 a.m.:	30%x75%x.44556539:	.10025221 W.I.

OR

Kaiser-Francis Oil Co. from 11/1/82 at 7:00 a.m.:	30%x75%x.44556539:	.10025221 W.I.
Belco Petroleum Corporation:	70%x75%x.44556539:	<u>.23392184 W.I.</u>
	Subtotal for Tract:	.44556539

VI.
SE/4NW/4SE/4 - 10 Acres

Merland, Inc. (unleased and participating):	10/320:	<u>.03125000 W.I.</u>
	Subtotal for Tract:	.03125000

VII.
SE/4SE/4 - 40 Acres

02 Alberto H. Gutierrez, Jr., A/K/A A. H. Gutierrez, Jr. and wife, Marie Celia Gutierrez, as Joint Tenants:	20%x40/320:	.02500000 R.I.
A. G. Hamilton, marital ^{§§60} status unknown:	5%x40/320:	.00625000 O.R.I.
Coquina Oil Corp. from date of first sales to 11/1/82 at 7:00 a.m.:	30%x75%x40/320:	.02812500 W.I.

OR

Kaiser-Francis Oil Co. from 11/1/82 at 7:00 a.m.:	30%x75%x40/320:	.02812500 W.I. ✓
Belco Petroleum Corporation:	70%x75%x40/320:	<u>.06562500 W.I.</u>
	Subtotal for Tract:	.12500000

<u>RECAPITULATION OF TRACT SUBTOTALS:</u>	.12500000
	+.23955261
	+.03125000
	+.00238200
	+.44556539
	+.03125000
	<u>+.12500000</u>
Total Net Revenue	1.00000000

RECAPITULATION OF NET REVENUE WORKING
INTEREST OF BELCO PETROLEUM CORPORATION
BEFORE PAY-OUT:

.06562500
+.12576512
+.01640625
+.23392184
+.06562500
Total .50734321

RECAPITULATION OF NET REVENUE WORKING
INTEREST OF COQUINA OIL CORPORATION FROM
DATE OF FIRST SALES TO 11/1/82 AT 7:00
A.M., AND KAISER-FRANCIS OIL COMPANY
FROM 11/1/82 at 7:00 A.M.:

.02812500
+.05389934
+.00703125
+.10025221
+.02812500
Total .21743280

RECAPITULATION OF TOTAL NET REVENUE
OF UNLEASED ACREAGE:

Pardue Farms, a New Mexico Limited Partnership: .00238200
Merland, Inc. (Participating) +.03125000
Total .03363200

ANALYSIS OF OIL AND GAS LEASES:

Lease No. 1

Date: 21 December 1977
Recorded: Book 155, Page 654, Miscellaneous
Records
Lessor: Earl Cochell
Lessee: Cities Service Company
Primary Term: 3 years
Royalty: 3/16
Pooling: Not exceeding 40 acres as to oil,
640 to gas
Land covered: SW/4SE/4, and other noncaptioned
land

Lease No. 2

Date: 21 December 1977
Recorded: Book 155, Page 658, Miscellaneous
Records
Lessor: Robert J. Jones, Charles R. Jones,
Mae Jones Jackson, Mary Jones Leonard,
Marie Jones Jordan, and Maxine Jones
Lammerman
Lessee: Cities Service Company

Primary Term: 3 years
Royalty: 3/16
Pooling: Not exceeding 40 acres as to oil,
640 to gas
Land covered: SW/4SE/4 and other noncaptioned lands

Lease No. 3

Date: 21 December 1977
Recorded: Book 153, Page 723, Miscellaneous
Records
Lessor: Charles Arthur Cassidy and Mildred
Delilah Cassidy Lakey, each dealing
in their sole and separate property

Lessee: Cities Service Company

Primary Term: 3 years
Royalty: 3/16
Pooling: Not exceeding 40 acres as to oil,
640 to gas
Land covered: SW/4SE/4, and other noncaptioned lands

Lease No. 4

Date: 21 January 1978
Recorded: Book 155, Page 568, Miscellaneous
Records
Lessor: Pardue Farms, a New Mexico Limited
Partnership

Lessee: R. C. Roberts

Primary Term: 3 years
Royalty: 1/4
Pooling: As prescribed by the New Mexico Oil
Conservation Division, plus a tolerance
of 10%

Land covered: SW/4NW/4SE/4; that part of SE/4NE/4
and the NE/4SE/4 and the SW/4NE/4
lying North and East of the A.T.&S.F.
Railroad right of way

Lease No. 5

Date: 30 January 1978
Recorded: Book 155, Page 579, Miscellaneous
Records
Lessor: John Guitar, Jr., dealing in sole
and separate property

Lessee: R. C. Roberts

Primary Term: 3 years

Royalty: 1/4
Pooling: As prescribed by the New Mexico Oil Conservation Division, plus a tolerance of 10%
Land covered: N/2NE/4; NW/4NW/4SE/4; that portion of SW/4NE/4 and of the SE/4NE/4 lying South and West of the A.T.& S.F. Railroad right of way

Lease No. 6

Date: 30 January 1978
Recorded: Book 155, Page 576, Miscellaneous Records
Lessor: Earl B. Guitar, et al
Lessee: R. C. Roberts
Primary Term: 3 years
Royalty: 1/4
Pooling: As prescribed by the New Mexico Oil Conservation Division, plus a tolerance of 10%
Land covered: That portion of NE/4SE/4 lying South and West of the A.T.&S.F. Railroad right of way

Lease No. 7

Date: 31 January 1978
Recorded: Book 155, Page 582, Miscellaneous Records
Lessor: C. P. Bunch and wife Marjorie Bunch
Lessee: R. C. Roberts
Primary Term: 3 years
Royalty: 1/4
Pooling: As prescribed by the New Mexico Oil Conservation Division, plus a tolerance of 10%
Land covered: NE/4NW/4SE/4

Lease No. 8

Date: 23 August 1978
Recorded: Book 161, Page 702, Miscellaneous Records
Lessor: Alberto H. Gutierrez, and wife Maria Celia Gutierrez
Lessee: A. G. Hamilton

Primary Term: 3 years
Royalty: 20%
Pooling: As prescribed by the New Mexico Oil Conservation Division, plus a tolerance of 10%
Land covered: SE/4SE/4; Depth Restriction: from and below a depth of 5,500 feet subsurface

ASSIGNMENTS OF OIL AND GAS LEASES:

1. From R. C. Roberts, et ux, to Cities Service Co.: By instruments recorded in Book 163, Page 343; Book 163, Page 347; Book 165, Page 709; and Book 163, Page 349; R. C. Roberts and wife, Ruth D. Roberts assigned all right, title and interest unto Cities Service Company of each of the 4 oil and gas leases tabulated as numbers 4 through 7 above, inclusive. Each of the foregoing assignments is effective prior to the assignments mentioned in paragraph 2 below.
2. From Cities Service Company to Belco Petroleum Corporation: By 7 separate assignments, each effective 11 November 1981, Cities Service Company assigned all right, title and interest unto Belco Petroleum Corporation in the leases tabulated above as numbers 1 through 7, inclusive, down to a depth of 13,000 feet subsurface. Cities Service Company, by the terms of each assignment, reserved an overriding royalty interest equal to the difference between Lessor's royalty any overriding royalty or other burden on said leases, and 25%. Cities also retained the right to make an election to convert to an undivided 40% of the working interest at pay-out. These assignments are recorded in Book 212, Page 1062; Book 212, Page 1067; Book 212, Page 1072; Book 212, Page 1077; Book 212, Page 1111; Book 212, Page 1118, and Book 212, Page 1125. All recording references are to the Miscellaneous Records of Eddy County.
3. From A. G. Hamilton to Belco Petroleum Corporation: By instrument dated 22 March 1982, recorded in Book 214, Page 714, of the Miscellaneous Records, A. G. Hamilton, as "Assignor" conveyed all right, title and interest in and to lease number 8 tabulated above unto Belco Petroleum Corporation from a depth of 5,500 feet subsurface down to but not below 13,050 feet subsurface. By the terms of said assignment, Hamilton reserved an overriding royalty interest equal to the difference between Lessor's royalty any overriding royalty or other burden on said lease, and 25%, with the right and option to convert to a 50% undivided working interest at pay-out.

DESIGNATION OF POOLED UNIT:

By instrument dated 26 November 1980, recorded in Book 192, Page 755, of the Miscellaneous Records, Belco Petroleum Corporation and Cities Service Company, et al, pooled and unitized all leases tabulated above into a unit containing 320 surface acres for the production of gas, including condensate produced thereby as a constituent element, (associated liquid hydrocarbons), said unit designated and known as the "#1 Citco-Cavalier 28 Well".

WELL INFORMATION:

Documents which you have submitted for our examination indicate that the #1 Citco-Cavalier 28 Well was spudded, on 12-28-80, completed on 11-11-81, with date of first sales on 15 January 1982. The initial production test for 24 hours indicated 233 MCF of gas. The well is located in the North Loving Morrow Pool, at a specific drill site of 2,310 feet from South Line and 650 feet from East line of Section 28, Township 23 South, Range 28 East, N.M.P.M. Eddy County, New Mexico. The gas purchaser appears to be El Paso Natural Gas Company, P. O. Box 1492, El Paso, Texas, 79978.

ACREAGE CALCULATIONS:

We have obtained an Assessor's plat showing the proration unit from the County Surveyor of Eddy County, Mr. John Lewis, which is scaled one inch = 200 feet. From this plat, the acreage has been figured as utilized in the computation of net revenue interest for the tracts which are of irregular size or shape. We have no reason to suspect that a survey will be needed; however, we will leave this to your discretion.

REQUIREMENTS:

1. ASSIGNMENT OF OIL AND GAS LEASE FROM A. G. HAMILTON: A. G. Hamilton acquired an oil and gas lease from Alberto H. Gutierrez and wife, Maria Celia Gutierrez, under date of 23 August 1978. By instrument dated 1 October 1980, A. G. Hamilton, under his individual signature, executed a farm-out agreement with Belco. Subsequently, by instrument dated 22 March 1982, A. G. Hamilton, as Assignor, assigned this oil and gas lease to Belco under his individual signature, but containing a corporate acknowledgment. If A. G. Hamilton were married on the date of acquisition of the oil and gas lease, then same would be presumably community property. Further, there is no conveyance from A. G. Hamilton or A. G. Hamilton and spouse into A. G. Hamilton, a corporation.

REQUIREMENT NO. 1: A corrected assignment of oil and gas lease should be made by A. G. Hamilton joined by his spouse, if any, and an appropriate husband and wife acknowledgment utilized. Further, the assignment should be made effective as of 15 January 1982, being the date of first production from the #1 Citco-Cavalier 28 Well.

2. UNRELEASED OIL AND GAS LEASES: There are a number of unreleased oil and gas leases contained in the abstracts, the primary terms of which expired prior to the date of inception of the leases referenced herein. Ideally, a release should be obtained of each of the leases, but as an alternative you may desire to rely upon an affidavit of nonproduction of the captioned lands and lands with which said captioned lands have been pooled or unitized.

REQUIREMENT NO. 2: As stated.

3. SUBORDINATION OF MORTGAGES: By mortgage dated 1 February 1960, recorded in Book 180, Page 412, Mortgage Records, B. T. Morgan and wife executed a mortgage to Jose Arevalo, Jr. and Edwardo G. Arevalo. This mortgage was subsequently assigned by instrument dated 28 June 1966 to Town and Country Realty, Inc.. Also, by instrument dated 23 October 1972, recorded in Book 262, Page 892, Mortgage Records, A. H. Gutierrez, Jr. and Maria Celia Gutierrez, his wife, executed a mortgage in favor of B. T. Morgan and wife. Each of these mortgages burden the minerals underlying the SE/4SE/4 of Section 28.

REQUIREMENT NO. 3: Obtain a release or subordination of said mortgages to your oil and gas lease from Town and Country Realty, Inc. and B. T. Morgan and wife, Rachel Morgan.

4. UNLEASED AND NONPARTICIPATING ACREAGE: You will note that we have credited title unto Pardue Farms, a New Mexico Limited Partnership, of a tract containing .762239 acres, described as follows: That part of the SE/4NE/4 lying South and West of the A.T.&S.F. Railroad. This tract may also be described as: That part of the SW/4SE/4NE/4 lying South and West of the A.T.&S.F. Railroad. The title to this small tract was credited to Pardue Farms under that certain title opinion dated 27 February 1978, from Linda McQuillen Kulp to Cities Service Company upon which we have been asked to rely. This tract is erroneously embraced within the lease executed by

*leased
by
Belco
Kaiser*

John Guitar, Jr. dated 30 January, 1978, recorded in Book 155, Page 579, Miscellaneous Records.

REQUIREMENT NO. 4: Obtain an oil and gas lease from Pardue Farms, a New Mexico Limited Partnership, covering this acreage.

5. ASSIGNMENT OF WORKING INTEREST FROM BELCO PETROLEUM CORPORATION TO COQUINA OIL CORPORATION: By the terms of that certain Letter Agreement dated 1 December 1980, between Coquina Oil Corporation and Belco Petroleum Corporation, Belco agreed to assign to Coquina Oil Corporation 30% of its interest in the captioned acreage. This agreement recited that Belco had obtained farm-out agreements from Cities Service Company and A. G. Hamilton for a total of 310 net acres of the unit. Proportionately reduced, Coquina Oil Corporation was, therefore, to pay 29.0625% of the drilling and completion costs in order to earn the 30% of the working interest owned by Belco. It should be noted that by Assignment, Bill of Sale and Conveyance, effective 1 November 1982, at 7:00 o'clock a.m., Coquina Oil Corporation conveyed its interest in this well and in and to the equipment, personal property and fixtures thereof unto Kaiser-Francis Oil Company. This instrument is recorded in Book 218, Page 1031, Miscellaneous Records.

REQUIREMENT NO. 5: Submit a copy of the Assignment from Belco Petroleum Corporation to Coquina Oil Corporation after same has been prepared and executed, for our examination.

6. DESCRIPTIVE ERROR IN PRIOR TITLE OPINION: Under prior title opinion dated 15 February 1978, from Linda McQuillen Kulp to Cities Service Company, an opinion was rendered on the tracts covered by the lease acquired from Pardue Farms. One of the tracts described in the caption of the opinion was the SW/4SE/4 lying North and East of the A.T.&S.F. Railway right of way. It is our opinion that this is a descriptive error for 2 reasons: (1) According to the Assessor's plat, no part of the railroad runs through the SW/4SE/4; and (2) Pardue Farms does not own the minerals underlying any portion of the SW/4SE/4. In all probability, this description should have been SW/4NE/4 lying North and East of the A.T.&S.F. railway right of way.

REQUIREMENT NO. 6: None, advisory only.

7. DEDICATION OF NATURAL GAS DEPOSITS TO INTERSTATE COMMERCE: No opinion is expressed herein regarding whether any gas discovered and produced from the captioned acreage may already be dedicated to Interstate Commerce, prior to your commencement of first sales to El Paso Natural Gas Company. In this regard, you are advised there is nothing in the records reflecting that the captioned land has ever been previously committed under a contract with an interstate pipeline purchaser. You should bear in mind, however, that said agreements committing gas to Interstate Commerce are frequently not recorded.

REQUIREMENT NO. 7: None, advisory only.

8. DELAY RENTAL PAYMENTS: No evidence has been submitted to show that all delay rentals have been timely paid in the proper amounts on each and all of the leases which have been pooled into the unit.

REQUIREMENT NO. 8: You should satisfy yourself that delay rentals have been timely paid in the proper amounts on each and all of the subject leases in order to perpetuate same down to the spud date of the well.

9. POWER OF ATTORNEY FROM CITIES SERVICE COMPANY TO ROBERT B. HUBBARD: Each assignment of oil and gas lease executed from Cities Service Company to Belco Petroleum Corporation has been made under hand of Robert B. Hubbard, as attorney-in-fact for Cities Service Company. Nothing appears in the materials examined conferring authority upon Robert B. Hubbard to act as

attorney-in-fact for Cities Service Company.

REQUIREMENT NO. 9: Satisfy yourself that Robert B. Hubbard has authority from Cities Service Company to act as an attorney-in-fact for purposes of the assignment of oil and gas leases to you. This instrument should further be placed of record in Eddy County, New Mexico.

10. RELIANCE UPON PRIOR TITLE OPINIONS: You have requested that we rely upon certain prior title opinions done for the benefit of Cities Service Company, which you have submitted for our examination and we have done so for purposes of this opinion. There is a disclaimer of liability contained on the face of each opinion from Cities Service Company, "To any person, firm or corporation for any loss or inconvenience occasioned by the use of or reliance upon said opinions". We might add further that although we recognize the examiners to be both competent and qualified, we cannot be responsible for errors, if any, on their part.

REQUIREMENT NO. 10: Advisory only.

11. ESTATE OF JOHN GUITAR, JR., DECEASED: You will note that we have credited title to a royalty interest under one of the tracts hereinabove tabulated unto John Guitar, III, as Personal Representative of the Estate of John Guitar, Jr., Deceased. Although no probate proceedings are reflected in the abstract, this examiner has personal knowledge of cause No. PB-83-6, in the District Court of Eddy County, State of New Mexico, styled "In The Matter of the Last Wills and Testaments of John Guitar, Jr. and Ernestine Jones Guitar, Deceased." The petition for ancillary probate of these estates was filed well after the close-out date of the abstracts and on 12 January 1983 an Order was entered by the District Court of Eddy County admitting the Wills of John Guitar, Jr. and Ernestine Jones Guitar to Ancillary Probate in the State of New Mexico. John Guitar, III was appointed as Personal Representative under the Will of each to serve without bond and to have all powers of a Personal Representative granted by the Wills of the decedents and by the laws of the State of New Mexico. This equates with plenary powers without court supervision.

REQUIREMENT NO. 11: None, advisory only.

12. PRIOR TITLE OPINION COVERING N/2NE/4, NW/4NW/4SE/4, AND THAT PART OF THE SW/4NE/4 AND SE/4NE/4 LYING SOUTH AND WEST OF THE ATCHISON, TOPEKA AND SANTA FE RAILWAY RIGHT OF WAY: Opinion dated 27 February 1978, from Linda McQuillen Kulp to Cities Service Company reports title to the above acreage.

In comment #1 of her opinion, Mrs. Kulp indicates that, with the exception of the SW/4SE/4NE/4 West and South of the railroad the remaining lands are abstracted only from 1 October 1960, at 8:00 o'clock a.m. to the close-out date of the abstract, being 1 February 1978, at 8:00 o'clock a.m.. She indicated further that the statement of ownership contained in the opinion was subject to the assumption that John Guitar, Jr. and Earl B. Guitar, as trustees of the Guitar Trust Estate, and C. P. Pardue were record owners of the captioned acreage as of 8 April 1948. Mrs. Kulp then proceeds to impose a requirement for submission of an abstract covering all of the acreage examined, less the SW/4SE/4NE/4 West and South of the railroad, from inception of the records to 1 October 1960, at 8:00 o'clock a.m..

REQUIREMENT NO. 12: In order to obtain complete and accurate verification of title, an abstract certifying title to the above mentioned acreage, less and except the SW/4SE/4NE/4 West and South of the railroad, from inception of the records to 1 October 1960, at 8:00 o'clock a.m. should be submitted for our examination.

13. DESCRIPTIVE CAPTION OF OPINION COVERING THE NE/4SE/4, SOUTH AND WEST OF THE ATCHISON, TOPEKA AND SANTA FE RAILROAD RIGHT OF WAY: By prior title opinion dated 1 March 1978, Linda McQuillen Kulp reported an opinion on the above acreage to Cities Service Company. Following the description as set forth above, a specific boundary description of the tract was made. This boundary description is in error. However, it is clear to us that the abstracts examined and the opinion rendered covered that part of the NE/4SE/4 of Section 28 lying South and West of the Atchison, Topeka and Santa Fe Railroad right of way.

REQUIREMENT NO. 13: None, advisory only.

14. EARL B. GUITAR MINERAL DEED: By Mineral Deed dated 10 April 1978, recorded in Book 234, Page 734, Deed Records, Earl B. Guitar, joined by his wife, Anita G. Guitar, attempted to convey certain nonparticipating mineral interests unto Phillip E. Guitar and Earl B. Guitar, Jr.. This Deed attempted to describe interest in 9 separate tracts and one of the tract descriptions is as follows:

"An undivided 10.3125 acre mineral interest in Section 28, Township 23 South, Range 28 East, Eddy County, New Mexico."

It is the opinion of this examiner that the description is so vague, uncertain and indefinite that it may be treated as no actual conveyance. Therefore, we have not credited any title based upon the terms of this Deed.

REQUIREMENT NO. 14: None, advisory only.

15. MERLAND, INC. TITLE IN SE/4NW/4SE/4: The Pecos Irrigation Company acquired title to all of the N/2SE/4 by Deed dated 15 February 1901, recorded in Book 7, Page 576, Deed Records. Under date of 21 February 1910, a Certificate of Sale for Taxes was issued by the Treasurer of Eddy County to the County of Eddy, recorded in Book 6, Page 392, Tax Sale Certificate Book. This certificate covers the SE/4NW/4SE/4 and was assigned to W. H. Merchant on 18 October 1919.

By instrument dated 26 February 1912, a second Certificate of Sale for Taxes was issued by the Treasurer of Eddy County to the County of Eddy, recorded in Book 12, Page 630, Tax Sale Certificate Book. This certificate, likewise, covered the SW/4NW/4SE/4 and on 30 July 1919, was subsequently assigned to W. H. Merchant.

By Warranty Deed executed 7 April 1919, recorded in Book 22, Page 213, Deed Records, Pecos Irrigation Company attempted conveyance of the SE/4NW/4SE/4 and other noncaptioned lands to C. P. Pardue.

By Tax Deed dated 4 August 1919, and recorded in Book 2, Page 281, Tax Deed Book, C. C. Sikes as Treasurer of Eddy County, conveyed to SE/4NW/4SE/4 to W. H. Merchant.

Subsequently, by Warranty Deed dated 31 January 1923, recorded in Book 54, Page 146, C. P. Pardue and wife Mattie Pardue conveyed the SE/4NW/4SE/4 and other noncaptioned lands unto C. P. Pardue and John Guitar, Trustee.

For approximately the next 13 years, C. P. Pardue and John Guitar, Trustee, executed several mortgages as though they owned title to the subject tract.

Finally, by Quitclaim Deed dated 3 November 1959, recorded in Book 162, Page 231, Deed Records, William H. Merchant, Jr. and Mary Frances Merchant, being successors to W. H. Merchant, quitclaimed the surface only of the SE/4NW/4SE/4 to C. P. Pardue.

It is our analysis that W. H. Merchant, his heirs, successors, and assigns have a stronger, more defensible title to the mineral estate than C. P. Pardue, his heirs, successors, or assigns. Merland, Inc. ultimately acquired title by Deed dated 5 July 1967, recorded in Book 199, Page 296, from William H. Merchant, Jr., dealing in separate property. It is clear that Merland, Inc. does not have a perfect record title and the above mentioned defects should ultimately be cleared by operation of a quiet title suit. However, because it is our conclusion that Merland, Inc. has a stronger, more defensible title than Pardue Farms and the Guitar family, and further, based upon all of the above mentioned transactions taken as a whole, together the quality of the subject well, and the fact that Merland, Inc. has advanced its proportionate share of the drilling and completion costs, we will not recommend that the runs be suspended pending institution of a quiet title suit by Merland, Inc. You may proceed to pay Merland's interest at your discretion.

REQUIREMENT NO. 15: None, advisory only.

CONCLUSION:

Subject to the requirements hereinabove made, we are approving title for division order purposes in the proportions hereinabove set forth.

Respectfully Submitted,

MCCORMICK AND FORBES

By John M. Caraway
John M. Caraway