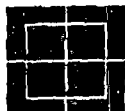


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL
RESOURCES DEPARTMENT
OIL CONSERVATION

CASE #: 14308

EXHIBIT 3

EXHIBIT A



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WRITER:

Douglas L. Lunsford
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December 5, 2008

IN RE: DRILLING OPINION OF TITLE TO:

Tract 1:

United States Oil and Gas Lease NMNM 12110
insofar as it covers Lots 3 and 4, E1/2SW1/4 Section 30,
for all depths, containing 165.51 acres, more or less;

Tract 2:

United States Oil and Gas Lease NMNM 54856
insofar as it covers E1/2E1/2 Section 30,
for all depths, containing 160 acres, more or less;

Tract 3:

United States Oil and Gas Lease NMNM 103872
insofar as it covers Lots 1 and 2, E1/2NW1/4,
for all depths, containing 165.41 acres, more or less; and

Tract 4:

United States Oil and Gas Lease NMNM 104675
covering W1/2E1/2 Section 30, for all depths,
containing 160 acres, more or less,

collectively comprising All Section 30, Township 16 South,
Range 28 East, N.M.P.M., Eddy County, New Mexico,
containing 650.92 acres, more or less.

Donner Federal No. 3 Well

No. 30,937

COG Operating, LLC
550 West Avenue, Suite 1300
Midland, Texas 79701

Attention: Ms. Jan Preston Spradlin, Senior Landman

Ladies and Gentlemen:

In connection with the title to the oil and gas mineral estate of the lands described
in the caption hereof, and the oil and gas leases embracing the same, we have been
submitted and have examined the following:

(a) Hinkle, Cox, Eaton, Coffield & Hensley Drilling Opinion of Title No. 24,856
dated October 6, 1983, which reported title to the captioned Tract 2 lease and lands, plus
other leases and lands, based upon submitted materials and abstracts collectively covering
the time periods from the inception of records to September 16, 1983 at 9:00 A.M., as to
the federal records, and inception of records to September 15, 1983 at 8:00 A.M., as to the
county records.

(b) Federal Abstract Company Abstract of Title No. 55697, which covers the Plat
Book Records, Historical Index Records, Serial Records and Case Files of Leases NMNM
12110, NMNM 54856, NMNM 103872, and NMNM 104675 in the United States Department
of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico,
pertaining to the captioned Tract 1 through 4 lands, respectively, for the time period from
inception of records down to October 2, 2007 at 9:00 A.M.

(c) Currier Abstract Company Abstract of Title No. 07,267, in five volumes, which
covers the records and files in the Offices of the County Clerk and District Court Clerk of
Eddy County, New Mexico, affecting title to the mineral estate only of the captioned Tract
1 through 4 lands, for the time periods from January 1, 2000 at 8:00 A.M. as to NW1/4
Section 30, from March 1, 1970 at 8:00 A.M. as to SW1/4 Section 30, from March 1, 2000
at 8:00 A.M. as to W1/2E1/2 Section 30, and from September 15, 1983 at 8:00 A.M. as to
E1/2E1/2 Section 30, all down to October 17, 2007 at 8:00 A.M.

Oil Conservation Division
Case No. 3 M208
Exhibit No. 3

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(512) 476-7133
FAX (512) 476-7146

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Other Features: See lease.

REQUIREMENT D: Submit copies of rental receipts reflecting that fifth through ninth-year annual rentals due under Lease NMNM 104675 were timely and properly paid.

2. **Assignments, Mergers, and Changes of Name:** There have been numerous transfers of interests affecting title to the captioned leases and lands. We briefly analyze these assignments, and title problems arising thereunder, as follows:

(a) **Tract 1 (Lease NMNM 12110):**

(i) **Martin, Williams & Judson - Cheyenne (Wellbore):** By Conveyance, Assignment and Bill of Sale dated effective June 1, 1990 at 7:00 A.M. and recorded in Eddy County Records Book 82, page 355, Martin, Williams & Judson, and other assignors, as parties to the working interest unit operating agreement discussed in Subsection IV.4(a) below, assigned to Cheyenne Resources all their right, title and interest in Lots 1-4, E $\frac{1}{2}$ W $\frac{1}{2}$ Section 30 of the captioned township and range, limited to production from the wellbore only of the Crow Flats Federal Com No. 1 Well, from the top of the San Andres formation at approximately 5,270 feet to the base of the Morrow formation at approximately 9,557 feet, reserving all rights above the San Andres formation and below the Morrow formation and all depth rights as to the above described acreage for any other wells. This assignment assigned both the contractual working interests of assignors under the working interest unit agreement and also 100% of the operating rights in the Tract 1 lease and lands, limited to the wellbore only of said well as to production from the above described interval. We cannot advise you as to the actual amount of contractual working interest in the wellbore assigned by this assignment. Also, subsequent to this assignment, the then current federal oil and gas lease covering the captioned Tract 3 lands terminated. Although this assignment was recorded in Eddy County Records, a prescribed form of federal assignment was not filed for approval with the Bureau of Land Management as required by applicable regulations. There are also numerous other issues and clouds on title deriving from the chain of title to the wellbore operating rights. See Exception to Title No. 1 below with regard to this chain of title and related issues.

We are not discussing herein any further assignments of contractual working interests and operating rights pertaining solely to said wellbore as to the above described depths in this portion of the opinion.

REQUIREMENT E: If you are interested in ownership of these wellbore operating rights and contractual working interests, an assignment of the above described operating rights must be executed on the prescribed federal form by the current owners of operating rights in Tract 1 to the current owners of said operating rights and contractual working interest, which limits the assigned operating rights to the wellbore only of said well as to the above described depths. Three original counterparts must thereafter be filed for approval with the Bureau of Land Management in accordance with applicable regulations.

(ii) **Martin, Williams & Judson - Martin Living Trust, et al.:** By Assignment of Oil and Gas Lease dated October 10, 1994, but effective January 1, 1994, and recorded in Eddy County Records Book 200, page 431, Martin, Williams & Judson assigned in equal shares to the Martin Living Trust, R. Ken Williams, and Edward Judson all of its interest in Lease NMNM 12110 covering all of the lease lands, but as to the captioned Tract 1 lands, excepted from the assignment operating rights attributable to production from the wellbore of the Crow Flats Federal Com No. 1 Well, producing from the top of the San Andres formation at approximately 5,270 feet to the base of the Morrow formation at approximately 9,557 feet. This assignment is made without warranty of title. An undated Assignment of Record Title Interest between the same parties of this lease was filed with and approved effective November 1, 1994, by the Bureau of Land Management. See Exception to Title No. 4(c) below with respect to the Williams Trust. The above assignments do not reserve any override, but the federal assignment refers to 5% previously reserved or conveyed overriding royalty or similar interest. We have seen nothing of record reflecting existence of a 5% reserved overriding royalty interest under this lease. This is apparently a scrivener's error, but this must be verified.

REQUIREMENT F: Inquire of grantor and grantees in said assignment to verify that as of the time of this assignment, there was in fact no outstanding 5% overriding royalty interest burdening the captioned Tract 1 lease and lands. We reserve further requirement if in fact there was such outstanding overriding royalty interest.

(iii) **Martin Living Trust - Sigmar:** By Correction Royalty Assignment dated February 1, 1999, recorded in Eddy County Records Book 372, page

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Respectfully submitted,

HINKLE, HENSLEY, SHANOR & MARTIN, L.L.P.

Douglas L. Lunsford

Douglas L. Lunsford

DLL/EAR:pc

*Above mentioned federal and
county abstracts returned.*