



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

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WRITER:
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January 17, 2014

**IN RE: DRILLING AND DIVISION ORDER OPINION
OF TITLE TO:**

The State of New Mexico Oil and Gas Leases more particularly identified on Exhibit "A" hereto, which are within the boundaries of the SRO State Exploratory Unit covering the following described lands situated in Eddy County, New Mexico:

Township 25 South, Range 28 East, N.M.P.M.

Section 32: E $\frac{1}{2}$ E $\frac{1}{2}$
Section 33: All
Section 34: S $\frac{1}{2}$

Township 26 South, Range 28 East, N.M.P.M.

Section 2: W $\frac{1}{2}$
Section 3: All
Section 4: All
Section 5: W $\frac{1}{2}$
Section 7: E $\frac{1}{2}$
Section 8: E $\frac{1}{2}$
Section 9: All
Section 10: All
Section 15: All
Section 16: E $\frac{1}{2}$ E $\frac{1}{2}$
Section 17: All
Section 18: E $\frac{1}{2}$
Section 20: All

No. 32,348

containing 7,360 acres, more or less, and the following lands that are currently not committed to the Unit Agreement:

Township 26 South, Range 28 East, N.M.P.M.

Section 5: E $\frac{1}{2}$
Section 6: E $\frac{1}{2}$
Section 8: W $\frac{1}{2}$

containing 960 acres, more or less.

The depths reported herein are limited to all depths from the surface down to the base of the Bone Spring Formation. The lands are referred to herein by their respective Unit Tract numbers as reflected on Exhibit "A."

SRO State Unit Well No. 9H
SRO State Unit Well No. 15H
SRO State Unit Well No. 16H
SRO State Unit Well No. 20H
SRO State Unit Well No. 53H
SRO State Unit Well No. 12H

COG Operating LLC
2208 West Main Street
Artesia, New Mexico 88210

Attention: Ms. Savannah Wilkinson

Ladies and Gentlemen:

NMOCC CASE Nos. 15441, 15481, 15482
NEX, SRO2 LLC AND SRO3 LLC
Exhibit No. 24

February 28, 2017

PO BOX 10
ROSWELL, NEW MEXICO 88202
(575) 822-5510
FAX (575) 823-5332

PO BOX 3580
MIDLAND, TEXAS 79702
(432) 683-1691
FAX (432) 683-6518

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SANTA FE, NEW MEXICO 87504
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2075
C 002341

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

(a) Hinkle, Hensley, Shanor & Martin, L.L.P. Division Order Opinions of Title Nos. 32,181, 32,204, and 32,219, all dated February 19, 2013, and addressed to you, which report title to the captioned leases and lands based upon a physical examination of the records maintained by the Commissioner of Public Lands for the State of New Mexico at the State Land Office in Santa Fe, New Mexico, for the time period from inception of the records down to January 4, 2013, at 7:00 a.m., and a physical examination of the Records in the Offices of the County Clerk and District Court Clerk of Eddy County, New Mexico, for the time period from inception of the records down to January 11, 2013, at 7:00 a.m., and a photocopy of Davis, Gerald & Cremer original Division Order Title Opinion dated November 12, 2012, addressed to you.

(b) Federal Abstract Company Supplemental Abstract of Title No. 59819, which covers the records in the Offices of the Commissioner of Public Lands of the State of New Mexico at Santa Fe, New Mexico, pertaining to the captioned lands for the time period from January 4, 2013 at 8:00 A.M. down to August 27, 2013 at 8:00 A.M.

(c) Currier Abstract Company Limited Abstract of Title No. 13,222 which covers the records in the Offices of the County Clerk and Clerk of the District Court for Eddy County, New Mexico, as to the mineral estate only of the exact captioned lands, for the time period from January 11, 2013 at 8:00 A.M. down to August 16, 2013 at 8:00 A.M.

(d) Photocopies of the SRO State Exploratory Unit Agreement and Unit Operating Agreement each dated May 8, 2009; Graham Cracker State Working Interest Unit Agreement dated October 1, 2007; Myox Operating Agreement dated November 1, 2005; Revised Stipulation of Interest between The Allar Company, EG 3, Inc., John Thoma and Sandra Thoma dated October 1, 2007; and Letter Agreements dated May 1, 2009 between EG3, Inc. and The Allar Company.

(e) Well Completion or Recompletion Report and Log and Request for Allowable and Authorization to Transport for the captioned wells as reflected in Section VII. F., below.

(f) Copies of submitted instruments and proceedings identified in the body of this opinion.

Based solely upon our examination of the foregoing, we now report the status of title to the oil and gas mineral estate of the captioned lands and depths, and of the oil and gas leases embracing the same, for division order purposes, as of August 27, 2013 at 8:00 a.m. with respect to the state records and August 16, 2013 at 8:00 a.m. with respect to the county records, as follows:

I. TITLE TO OIL, GAS, AND OTHER MINERALS (BUT AS TO OIL AND GAS SUBJECT TO THE LEASES ENUMERATED ON EXHIBIT "A"):

State of New Mexico All

II. RECORD TITLE TO OIL AND GAS LEASES:

A. Leases VB-0575; VB-0576; VB-0569; VB-0694; VB-7461; V-7462; V-7463; V-7465; V-7467; VB-0695; V-7468; and V-7470 (Unit Tracts 1, 2, 3, 5, 7, 9, 11, 13, 17, 19, 21, and 24, respectively):

Yates Petroleum Corporation All

B. Leases VB-7085, V-7466, and V-7473 (Unit Tracts 4, 15, and 27, respectively):

Concho Oil & Gas LLC 50%

COG Operating LLC 50%

C. Leases V-7438; V-7439; V-7444; VB-0677; V-7445; and V-7446 (covering Unit Tracts 6, 8, 16, 18, 20, and 22, respectively):

The Allar Company All

D. Leases V-7440; V-7441; and V-7443 (covering Unit Tracts 10, 12, and 14, respectively, which are not committed to the Unit):

Legend Natural Gas III, LP All

E. Leases V-7447 and V-7448 (covering Unit Tracts 23 and 25, respectively):

Chevron U.S.A. Inc. All

F. Lease V-7450 (Unit Tract 26):

Nearburg Exploration Company LLC All

III. TITLE TO OPERATING RIGHTS, ON A LEASE BASIS:

A. Leases VB-0575; VB-0576; VB-0569 (Unit Tracts 1, 2, and 3, respectively):

Yates Petroleum Corporation 70%

Abo Petroleum Corporation 10%

Myco Industries, Inc. 10%

OXY Y-1 Company 10%
100%

B. Leases VB-0694; VB-7461; V-7462; V-7463; V-7465; V-7467; VB-0695; V-7468; V-7470; and V-7473 (Unit Tracts 5, 7, 9, 11, 13, 17, 19, 21, 24, and 27, respectively):

Yates Petroleum Corporation 12.5%

Abo Petroleum Corporation 12.5%

Myco Industries, Inc. 12.5%

OXY Y-1 Company 12.5%

COG Operating LLC 47.5%

Concho Oil & Gas LLC 2.5%
100%

C. Leases VB-7085; V-7466; and V-7450 (Unit Tracts 4, 15, and 26 respectively):

COG Operating LLC 95%

Concho Oil & Gas LLC 5%
100%

D. Leases V-7438; V-7439; V-7444; VB-0677; V-7445; and V-7446 (covering Unit Tracts 6, 8, 16, 18, 20, and 22, respectively):

The Allar Company 100%*

*A portion of this interest is subject to reassignment, and we refer you to Section VII, paragraph B 18, and Requirement C below.

E. Leases V-7440; V-7441; and V-7443 (covering Unit Tracts 10, 12, and 14, respectively, which are not committed to the Unit):

Legend Natural Gas III, LP 100%

F. Leases V-7447 and V-7448 (covering Unit Tracts 23 and 25, respectively):

Chevron U.S.A. Inc. 100%

IV. TITLE TO OVERRIDING ROYALTY INTERESTS BURDENING THE
CAPTIONED LEASES AND LANDS AND DEPTHS ON A LEASE BASIS:

A. Lease VB-0575; VB-0576; VB-0569; V-7440; V-7441; V-7443; V-7447; and V-7448 (Unit Tracts 1, 2, 3, 10, 12, 14, 23, and 25, respectively):

None.

B. Leases V-7085 and V-7467 (Unit Tracts 4 and 17, respectively):

Raye Miller and wife, Mary Miller00195055 ORI

C. Lease VB-0694 (Unit Tract 5):

Nestegg Energy Corporation00181672 ORI

D. Leases V-7438; V-7439; V-7444; V-7445; and V-7446 (Unit Tracts 6, 8, 16, 20, and 22, respectively):

John Thoma, as his separate property01250000 ORI

Sandra Mary Thoma, as her separate property01250000 ORI

EG3, Inc.05833333 ORI
.08333333

E. VB-0677 (Unit Tract 18):

John Thoma, as his separate property01250000 ORI

Sandra Mary Thoma, as her separate property01250000 ORI

EG3, Inc.03750000 ORI
.06250000

F. Leases V-7461; VB-0695; V-7468; V-7470; and V-7473 (Unit Tracts 7, 19, 21, 24, and 27, respectively):

Nestegg Energy Corporation00181672 ORI*

G. Lease V-7462 (Unit Tract 9):

1. S $\frac{1}{2}$ SW $\frac{1}{4}$ Section 4:

Nestegg Energy Corporation00099944 ORI*

2. NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$ Section 4:

Nestegg Energy Corporation00197740 ORI*

H. Leases V-7463 and V-7465 (Unit Tracts 11 and 13, respectively):

Nestegg Energy Corporation00099944 ORI*

I. Lease V-7466 (Unit Tract 15):

Nestegg Energy Corporation00099944 ORI

J. Lease V-7450 (Unit Tract 26):

Nearburg Exploration Company, L.L.C.08333333 ORI

Nestegg Energy Corporation00181672 ORI

*These overrides burden only the working interest credited to COG Operating LLC and Concho Oil & Gas LLC, who collectively own a 50% interest in operating rights in these leases.

V. TITLE TO OVERRIDING ROYALTY INTERESTS BURDENING THE CONTRACTUAL WORKING INTERESTS OF COG OPERATING LLC AND CONCHO OIL & GAS LLC ON A TRACT BASIS:

A. Unit Tract 16 (Lease 7444):

Raye Miller and wife, Mary Miller00195055 ORI

B. Unit Tracts 1, 2 and 3 (Leases VB-0575, VB-0576 and VB-0569):

Nestegg Energy Corporation00197740 ORI

C. Unit Tracts 6, 8, 18, 20, 22, 23 and 25 (Leases V-7438, V-7439, VB-0677, V-7445, V-7446, V-7447 and V-7448):

Nestegg Energy Corporation00181672 ORI

D. Unit Tracts 10, 12 and 14 (Leases V-7440, V-7441 and V-7443):

Nestegg Energy Corporation00119594 ORI

VI. TITLE TO UNITIZED PRODUCTION FROM THE BONE SPRING FORMATION PRODUCED FROM THE CAPTIONED WELLS:

A. SRO State Unit Well No. 9H:

See Exhibit "B" for the division of unitized production of oil and gas produced from the SRO State Unit No. 9H Well from the Bone Spring Formation.

B. SRO State Unit Well No. 15H:

See Exhibit "C" for the division of unitized production of oil and gas produced from the SRO State Unit No. 15H Well from the Bone Spring Formation.

C. SRO State Unit Well No. 16H:

See Exhibit "D" for the division of unitized production of oil and gas produced from the SRO State Unit No. 16H Well from the Bone Spring Formation.

D. SRO State Unit Well No. 20H:

See Exhibit "E" for the division of unitized production of oil and gas produced from the SRO State Unit No. 20H Well from the Bone Spring Formation.

E. SRO State Unit Well No. 53H:

See Exhibit "F" for the division of unitized production of oil and gas produced from the SRO State Unit No. 53H Well from the Bone Spring Formation.

F. SRO State Unit Well No. 12H:

See Exhibit "G" for the division of unitized production of oil and gas produced from the SRO State Unit No. 12H Well from the Bone Spring Formation.

Township 25 South, Range 28 East, N.M.P.M.
Sections 32 - 34

and any and all unitization agreements and other agreements associated or related to those properties. This Assignment is subject to a Purchase and Sale Agreement between the parties dated September 6, 2012, and we refer you to Exception to Title No. 5(e) below.

Lease V-7450 (Unit Tract 26):

23. **Schutz - Nearburg:** By Assignment of Oil and Gas Lease dated July 8, 2005, approved by the Commissioner on October 4, 2005, recorded in Eddy County Records Book 616, page 593, Doug J. Schutz, a single man, assigned Lease V-7450 to Nearburg Exploration Company, LLC.

24. **Nearburg - Marbob:** By Term Assignment of Oil and Gas Lease dated effective July 1, 2009, recorded in Eddy County Records Book 790, page 530, Nearburg Exploration Company, LLC assigned to Marbob Energy Corporation all of its interest in Lease V-7450 covering Unit Tract 26 for all depths from the surface down to the base of the Bone Spring Formation for a term commensurate with the SRO Exploratory Unit Agreement. Nearburg reserved an override equal to the difference between 25% of 8/8 and the aggregate of all royalty, overriding royalty interest, production payments, and other noncost bearing interests. The override is to be computed and paid at the same time and in the same manner as the royalty payable to the lessor of the lease, and shall bear its proportionate share of taxes and assessments. The override shall be proportionately reduced if the interest assigned is less than a full working interest in the lease. The Assignment provides for a reassignment should unitized substances in paying quantities be discovered and the assignee chooses not to continue drilling operations. If the lands covered by the lease are eliminated from the unit area after the end of the primary term of the lease, but the Unit Agreement remains in effect as to any of the lands embraced therein, assignor shall still be entitled to an overriding royalty interest in oil and gas produced from the lands remaining subject to the Unit Agreement equal to that which assignee was entitled to before any such elimination. The Assignment is subject to the Unit Agreement for Development and Operation of the SRO Unit Area dated May 8, 2009. Exhibit A to the Term Assignment includes extensive requirements for reporting well information to assignor. The Assignment was made with special warranty covenants.

Exhibit A-1 to the SRO State Exploratory Unit Operating Agreement recites that Nearburg assigned its interest under the Unit Agreement to all of the parties thereto in their proportionate interests, not just Marbob. Nearburg's only interest in the unit is Lease V-7450 covering Unit Tract 26 comprising 320 acres. Therefore, Nearburg owned a .04347826 unit working interest. Exhibit A-1 recites that Nearburg owns an override of .00415092, calculated as the difference between 25% and the 1/6 royalty, proportionately reduced to the acreage owned (which calculation is $320/6424.280592 \times (.25 - 1/6)$). It appears on the exhibit that Nearburg is credited with a .04981102 unit working interest which is then credited to all of the parties to the unit, rather than just Marbob's successors, COG and Concho. We do not know why they calculated the override in this manner. Our calculation is $(25\% - 1/6) \times 320/7360 = .00362319$. Marbob's successors should execute an assignment of the other parties' pro rata interests which it acquired from Nearburg, and in this regard we have the following requirements.

REQUIREMENT D: COG Operating LLC and Concho Oil & Gas LLC should execute an assignment to the other unit working interest owners of their pro rata share of the Nearburg interest in Lease V-7450 and record the same in the Eddy County records. The assignment should be submitted to us for review, and we reserve possible further requirement and possible revisions to Section IV and Exhibit "B" to this opinion.

REQUIREMENT E: If you have not already done so, note in your lease file the extensive reporting requirements under Exhibit A to the Term Assignment and comply with the same. This is advisory.

REQUIREMENT F: Nearburg, COG, and Concho should execute a Stipulation of Interest setting forth how Nearburg's override is to be calculated before COG and Concho make the assignment to the other parties. If their intention is to calculate the override differently than that reported herein, submit the Stipulation to us and we will recalculate the override and the unit working interests. We reserve possible further requirement.

oil, gas, natural gasoline, and associated fluid hydrocarbons in any form from those formations. The Marbob Teddy Graham State No. 1 Well in Section 9, T-26-S, R-28-E, indicates that the base of the Bone Spring Formation is at 9,333 feet subsurface. Marbob was designated unit operator. This is a state exploratory unit agreement which is a "full participating" unit agreement that calls for the allocation of all production each of the tracts committed thereto on an acreage basis. Paragraph 9 of the Unit Agreement provides that after discovery of unitized substances in paying quantities, the unit operator will proceed with diligence to develop the unitized area and that all undeveloped regular well spacing or proration units within the unit boundaries will be automatically eliminated from the agreement and will no longer be part of the unit unless at the expiration of five years after the first day of the month following the effective date of this agreement, diligent drilling operations are in progress on said tracts. Paragraph 13 of the Unit Agreement provides that all leases, contracts, and agreements concerning the unit area are conformed to the provisions of the Unit Agreement to the degree necessary to coincide with the terms of the agreement. Each lease committed to the unit, insofar as it applies to lands within the unit area, shall continue in force beyond the term provided as long as the agreement remains in effect, provided drilling operations on the initial well shall have been commenced. State leases subject to the Unit Agreement are segregated as to any portions of the leases not committed to the unit. This specifically results in the segregation of Leases VB-0575 (Unit Tract 1) and V-7446 (Unit Tract 22). Paragraph 22 provides for subsequent joinder upon approval of the Commissioner of Public Lands, but there will be no retroactive adjustment of revenue upon a subsequent joinder. We know that you are familiar with the terms of this Unit Agreement and will not analyze all of the terms and provisions thereof.

The Unit Agreement was executed by Marbob Energy Corporation as operator, and ratifications and joinders were executed by Yates Petroleum Corporation, Myco Industries, Inc., Abo Petroleum Corporation, Yates Drilling Company, Pitch Energy Corporation, The Allar Company, EG3, Inc., and Nearburg Exploration Company, LLC. Exhibit B to the Unit Agreement indicates that there are 7,360 committed acres and 960 not committed acres to the Unit Agreement, for a total acreage of 8,320 acres. The SRO Unit is completely comprised of state oil and gas leases and 5,600 acres of which are subject to a 1/6 royalty and 1,760 acres are subject to a 3/16 royalty. As a result, the State of New Mexico is credited with a royalty of .17164855 of all unitized substances produced from the unit area.

REQUIREMENT H: Resubmit this matter to us in the event Devon Energy Production Company LP and/or Legend Natural Gas III, LP, or any of their successors in interest, subsequently join the unit, and we reserve possible further requirement and the right to recalculate the interests credited thereunder.

D. Operating Agreements: The materials examined reflect that the following Operating Agreements cover the captioned lands, or portions thereof, and appear to remain in force and effect.

1. SRO State Exploratory Unit Operating Agreement: The SRO State Exploratory Unit Operating Agreement dated May 8, 2009, names Marbob Energy Corporation as operator. Pitch Energy Corporation; Yates Petroleum Corporation; Yates Drilling Company; Myco Industries, Inc.; Abo Petroleum Corporation; The Allar Company; EG3, Inc.; Chesapeake Exploration, LLC; and Nearburg Exploration Company LLC are nonoperators. The Operating Agreement was prepared on AAPL Form 610-1982 Model Form Operating Agreement and the contract lands cover the following described lands:

Township 25 South, Range 28 East, N.M.P.M.

Section 32: E $\frac{1}{4}$ E $\frac{1}{4}$

Section 33: All

Section 34: S $\frac{1}{4}$

Township 26 South, Range 28 East, N.M.P.M.

Section 2: W $\frac{1}{2}$

Sections 3 and 4: All

Section 5: W $\frac{1}{2}$

Section 7: E $\frac{1}{4}$

Section 8: E $\frac{1}{4}$

Sections 9, 10, and 15: All

Section 16: E $\frac{1}{4}$ E $\frac{1}{4}$

Section 17: All

Section 18: E $\frac{1}{2}$

Section 20: All

limited to all depths from the surface down to the base of the Bone Spring Formation. Article III B provides for payment of obligations to the extent of 1/6 and each party bears its excess burdens. Article VI A provides that the initial well is to be drilled at a legal location in Section 4 to a depth sufficient to test the Bone Spring Formation. Article VI B 2 provides for nonconsent penalties of 200%/500%/500%. Additional typed written provisions on page 6A provide, among other things, that parties who elected to participate in the initial operations on any given well will have the option to participate as to each interval in which the completion is proposed and there will be a separate election as to each specific proposed completion depth. Article VII B provides for lien provisions running in favor of operator. Article VII D provides that no well shall be drilled or deepened without the consent of all parties except and unless done pursuant to Article VI B 2 nonconsent provisions. Article VII D 3 provides for a \$25,000.00 limitation on expenditures. Article VIII D, Maintenance of Uniform Interests, has not been deleted. Article VIII F, Preferential Right to Purchase, has been deleted. Article X provides for a \$15,000.00 settlement of claims provision. Article XIII states that the term of the agreement is for the life of any well drilled under the agreement and for an additional 180 days after cessation of production, with the usual reworking and continuous drilling provisions.

Article XV, Other Provisions, include a priority of operations provision and a provision regarding required operations that provides as follows:

Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve and [sic] interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation may revert to a third party, or (4) comply with an order issued by regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights, LIMITED TO THE SRO UNIT DEPTHS, which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases, or rights LIMITED TO THE SRO UNIT DEPTHS, within the balance of the drilling unit upon which the well was drilled, excepting, however, wells therefore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest. The purposes of defining a required operation under this provision, such operation will be deemed required if proposed within thirteen (13) months prior to the date such rights would terminate.

Article XV C states that the operating agreement supersedes and replaces any other current operating agreements covering and concerning the contract area. We have given effect to this provision only as to those parties who executed the Operating Agreement.

The interests of the parties set forth in the agreement are as follows:

Marbob Energy Corporation	19.477715%
Pitch Energy Corporation	16.856606%
Yates Petroleum Corporation	13.028650%
Abo Petroleum Corporation	6.663396%
Yates Drilling Company	6.663396%
Myco Industries, Inc.	6.663396%
The Allar Company	20.162395%
Chesapeake Exploration LLC	10.484446%

The leases subject to the Operating Agreement are attached as Exhibit A-1. Exhibit C is a COPAS 1984-1 Onshore Accounting Form; Exhibit D contains the insurance provisions and that the operator may be self insured; Exhibit E is a Gas Balancing Agreement; and Exhibit F is an equal employment opportunity provision. We know you are familiar with the terms of this agreement so we do not analyze it further.