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505-327-3388

October 10, 1990

✓
John F. Zent, Area Landman
Meridian Oil Inc.
P. O. Box 4289
Farmington, NM 87499

Re: Navajo Indian "B" #2 Well *Ballard*
Navajo Indian Lease I-149-IND-8468
Township 27 North, Range 8 West, NMPM
Section 19: Lots 1, 2, 3, 4, E/2W/2 (W/2)
Containing 321.44 acres, more or less
San Juan County, New Mexico



TITLE OPINION

Dear John:

In order to ascertain the title to the working interests to the oil, gas, and associated hydrocarbons underlying the above-captioned lands, the following have been examined:

1. Recorded instruments on file in the office of the Clerk of San Juan County, New Mexico from inception to October 5, 1990.
2. Lease File I-149-IND-8468 at the Bureau of Indian Affairs, Navajo Area Office, Window Rock, Arizona as to instruments filed or recorded from inception to September 25, 1990.
3. Meridian Oil Inc. lease file NM-9332 as made available on October 5, 1990.

From this examination, we find title to the oil, gas, and associated hydrocarbons underlying the above-captioned lands and formations to be vested as set forth below, subject to the requirements, comments, and objections contained herein.

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DIVISION OF INTEREST

Royalty Interest

United States of America, Trustee for
the account of the Indian Lessors
signatory to the subject lease 12.5% ✓

Overriding Royalty Interest

-0-

Operating Rights and Gross Working Interests

Meridian Oil Production Inc. 100% ✓

REQUIREMENTS, OBJECTIONS, AND COMMENTS

1. This Title Opinion does not cover liens, encumbrances, taxes, easements, rights-of-way, licenses, permits, chattel mortgages, deeds of trust, oil and/or gas purchase contracts, locations of mining claims, coal leases, and the precise ownership of leasehold burdens such as royalty interests, overriding royalty interests, and production payments. The recitation of such interests in the Division of Interest section is for information only, and is only designed to illustrate the total amount of such interests which burden the working interests.

Further, pursuant to your request, this Title Opinion does not cover the question of the legal ownership of the gaseous substances produced from coal seams in the Fruitland Formation.

No opinion is being expressed concerning these matters except as hereinafter discussed, and this Title Opinion is subject to and conditioned upon the accuracy and completeness of the title data examined.

REQUIREMENT: As stated.

2. The records of oil and gas production on this lease or on leases communitized with this lease have not been reviewed. No opinion is being expressed on whether this oil and gas lease has been extended past its primary terms by production.

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REQUIREMENT: The production records of wells located on this lease or on leases communitized with this lease should be reviewed in order to ascertain whether this oil and gas lease is still in effect past its primary term.

3. The material and title data examined contain no information regarding spacing or pooling. The interests shown in the above Division of Interest section have been based upon an acreage proration within only the subject lands.

REQUIREMENT: It will be necessary to insure that the subject well satisfies all spacing, pooling, and unitization rules, regulations, orders, and agreements.

4. The material reviewed and title data examined did not show whether the oil and gas lease is in good standing.

REQUIREMENT: An investigation with the Minerals Management Service (MMS) and BIA should be made to determine whether the lease account for the subject oil and gas lease is presently in good standing.

5. For your information, you should be aware of the current policy of the Navajo Area Office concerning approval of operating rights. In August, 1987, the Navajo Area Office adopted the policy of not requiring approval of assignments of operating rights. However, that policy has now changed. Approval of all assignments of operating rights concerning Navajo Allotted Lands must be obtained from the BIA, Navajo Area Office. This policy is retroactive to August, 1987. Obviously, this policy is subject to change, depending upon the administration, and inquiry should be made to the BIA, Navajo Area Office as to all requirements concerning conveyances of interests in the subject lands.

REQUIREMENT: As stated.

6. You should be aware that the oil and gas lease contains the following special provisions:
 - a. Lessee shall employ qualified Navajo labor, including truckdrivers.

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- b. If required by Supervisor, lessee shall condition wells incapable of producing in paying quantities, into water wells if so capable.

The lease also contains a "free gas" clause.

REQUIREMENT: None, advisory only. However, you should be aware of the terms and conditions of the above described lease and conduct your operations accordingly.

- 7. In the Assignment of Mining Lease from Southern Union Gas Company to Southern Union Production Company dated February 20, 1961, there is a clause which reserves to assignor all gas pipelines and appurtenances downstream of the christmas-tree on any existing well.

REQUIREMENT: None, advisory only.

- 8. The Navajo Area Office directed a letter dated July 28, 1980 to Supron Energy Corporation requesting consideration of a change in royalty from 12-1/2% to 16-2/3%. Apparently the request was ignored.

REQUIREMENT: None, advisory only.

- 9. The records of the BIA contain the following instruments which are not recorded in San Juan County, New Mexico:

- a) Oil and Gas Lease from Yith Nup Pah et al. to F. D. Jernigan dated April 23, 1952, approved May 9, 1952.
- b) Assignment of Mining Lease from F. D. Jernigan et ux. to Southern Union Gas Company dated April 23, 1952, approved May 9, 1952.
- c) Assignment of Mining Lease from Southern Union Gas Company to Southern Union Production Company dated February 20, 1961, approved May 23, 1961.

REQUIREMENT: Originals or certified copies of the above identified instruments should be recorded in San Juan County, New Mexico.

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10. The records of San Juan County, New Mexico contain an Assignment, Bill of Sale, and Conveyance from Unicon Producing Company (Unicon) to Meridian Oil Production Inc. (MOPI), dated January 1, 1990, recorded in Book 1118, Page 476. However, there was no assignment of the lease in the BIA lease file.

REQUIREMENT: To vest Record Title in the lease to MOPI, a BIA approved Assignment of Mining Lease from Unicon to MOPI should be filed for approval with the BIA in Window Rock, Arizona.

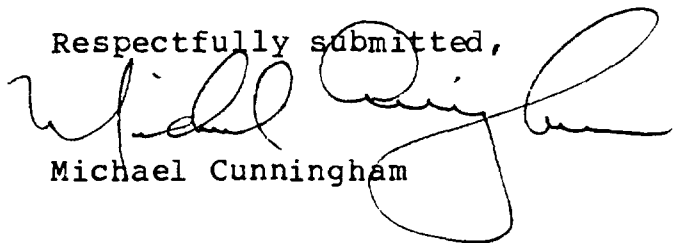
11. The records of San Juan County, New Mexico contain several instruments with legal descriptions which cover the subject lands, but there is no chain of title connecting the parties of those instruments to the interest tabulated in our Division of Interest section. Several of the instruments, e.g., Correction of Assignment recorded in Book 989, Page 250, describe the subject lands under Federal Lease NM-02861. Inquiry to the BLM confirmed our suspicion of an error in the legal description since that federal oil and gas lease covers lands in Township 27 North, Range 9 West, rather than Range 8 West.

There is also a Mineral and Royalty Deed recorded in Book 1112, page 37 which gives as a legal description only T-27-N, R-8-W, Section 19, e.i. there is no identification of the subdivisions under Section 19.

The instruments identified, and other similar instruments are considered "wild" and outside the chain of title for the subject lease and lands.

REQUIREMENT: None, advisory only.

Respectfully submitted,



Michael Cunningham

MC:sak