

WOERNDLE, PATTERSON, STRAIN & MILLER, L.L.P.

ATTORNEYS AT LAW
1004 N. Big Spring, Suite 121
Midland, Texas 79701

Rudolph A. Woerndle, P.C.*

*Licensed in Texas, New Mexico and Colorado

*Board Certified Oil, Gas & Mineral Law

Texas Board of Legal Specialization

*New Mexico Board of Legal Specialization

Recognized Specialist - Oil & Gas Law

Phone: (915) 682-8321

Fax: (915) 682-3159

February 6, 1997

DRILLING OPINION - covering United States Oil and Gas Leases NM-70896, NM-82927, NM-90907, and NM 96858, collectively embracing the E/2 of Section 28, T-20-S, R-33-E, NMPM, Lea County, New Mexico, comprising 320 acres, as follows:

NM-70896: SE/4 SE/4 (40 acres)
NM-82927: SW/4 SE/4 (40 acres)
NM-90907: SW/4 NE/4 (40 acres)
NM-96858: N/2 NE/4, SE/4 NE/4 and N/2 SE/4

Penwell Energy, Inc.
600 N. Marienfeld, Suite 1100
Midland, Texas 79701

Att: Mr. Mark Wheeler

Re: Opal "28" Fed Com #1
Opal Prospect (NM-020)

Gentlemen:

I have examined the following:

MATERIALS EXAMINED

1. Abstract of Title No. 6834 covering the Plat Book Records, Historical Index Records and Serial Records NM 70896, NM 82927, NM 90907, and NM 96858 in the United State Land Office pertaining to the E/2 of Section 28, T20S, R33E, NMPM, prepared by Schutz Abstract Company, Inc. for Penwell Energy, Inc., from inception of the records to January 8, 1997 at 8:00 a.m., containing 150 pages, inclusive.
2. Personal examination of the records of Caprock Title Company, covering title per the records of Lea County, New Mexico from inception to January 10, 1997, at 8:00 a.m.

Based upon examination of the foregoing and subject to the below comments and requirements, I am of the opinion that title is vested as follows:

SEE TITLE

Surface and Minerals:

United States of America ----- All
SUBJECT TO the oil and gas leases referenced above

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11722 Exhibit No. — 5
Submitted By:
Nearburg Exploration Co.
Hearing Date: March 20, 1997

OIL AND GAS LEASEHOLD ESTATE

A. NM-70896: SE/4 SE/4 (40 acres)

Overriding Royalty Interests:

	<u>Calculation</u>	<u>Net Interest in Production</u>
John B. Castle, and wife, Ruby Lee Castle -----	4.25% x 8/8 -----	.04250000
Pitch Energy Corporation -----	7.25% x 8/8 -----	<u>.07250000</u>
Total Overriding Royalty:		.11500000

Operating Rights:

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Nearburg Exploration Company, L.L.C. -----	100% x .875 -----	100% -----	.76000000
	<u>less:</u> .115 x 8/8		

B. NM-82927: SW/4 SE/4 (40 acres)

Overriding Royalty Interests:

	<u>Calculation</u>	<u>Net Interest in Production</u>
Steve Mitchell -----	0.50% x 8/8 -----	.00500000
George L. Scott, III -----	0.50% x 8/8 -----	.00500000
Scott Exploration, Inc. -----	0.50% x 8/8 -----	.03740000
	<u>plus:</u> 9.0% x 36% x 8/8	
Duane Brown -----	5.00% x 36% x 8/8 -----	.01800000
S. H. Cavin, whose wife is Marian K. Cavin -----	2.00% x 36% x 8/8 -----	.00720000
Terry and Barb Kramer -----	30.00% x 36% x 8/8 -----	.10800000
Landwest, a Utah General Partnership -	1.00% x 36% x 8/8 -----	.00360000
Candace McClelland, whose husband is James G. McClelland -----	2.125% x 36% x 8/8 -----	.00765000
Permian Hunter Corporation -----	4.00% x 36% x 8/8 -----	.01440000
Robert W. Eaton, whose wife is Katherine B. Eaton -----	1.5625% x 36% x 8/8 -----	.00562500
Charles I. Wellborn, whose wife is J. D. Wellborn -----	2.0% x 36% x 8/8 -----	.00720000
Warren, Inc. -----	5.0% x 36% x 8/8 -----	.01800000

Winn Investments, Inc. -----	-1.00% x 36% x 8/8 -----	.00360000
Lori Scott Worrall -----	-1.00% x 36% x 8/8 -----	.00360000
Xion Investments -----	10.00% x 36% x 8/8 -----	.03600000
Strata Production Company -----	18.50% x 36% x 8/8 -----	<u>.06660000</u>
Total Overriding Royalty:		.34687500

Operating Rights:

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Murphy Production Company -----	92.1875% x .50 -----	92.1875% -----	.46093750
Arrowhead Oil Corporation -----	6.250% x .86 -----	6.2500% -----	.05375000
Branko, Inc. -----	1.5625% x .86 -----	<u>1.5625%</u> -----	<u>.01343750</u>
Total Working Interest:		100.0000% -----	.52812500

C. NM-90907: SW/4 NE/4 (40 acres)

Overriding Royalty Interests:

	<u>Calculation</u>	<u>Net Interest in Production</u>
Mary Ralph Lowe, Trustee of the Erma Lowe Trust for Carson L. R. Yost 5151 San Felipe, Suite 400 Houston, Texas 77056-3607 -----	1/3 x 1/4 x 6.1875% -----	.00515625
Mary Ralph Lowe, Trustee of the Erma Lowe Trust for Samantha Adelaide Yost 5151 San Felipe, Suite 400 Houston, Texas 77056-3607 -----	1/3 x 1/4 x 6.1875% -----	.00515625
Mary Ralph Lowe, Trustee of the Erma Lowe Trust for Clayton Lowe Yost 5151 San Felipe, Suite 400 Houston, Texas 77056-3607 -----	1/3 x 1/4 x 6.1875% -----	.00515625
John Thoma 2601 Camarie Midland, Texas 79705 -----	-1/4 x 1.5% x .875 ----- <u>plus:</u> 1/4 x 0.60% x 8/8	.00478125
C. Mark Wheeler 3001 Northtown Midland, Texas 79705 -----	-1/4 x 0.25% x 8/8 -----	.00062500

Paul R. Barwis 2201 Southampton Lane Midland, Texas 79705	-----1/4 x 0.50% x 8/8 -----	.00125000
Jareed Partners, Ltd. 2407 Bellechase Court Midland, Texas 79705	-----1/4 x 0.50% x 8/8 -----	.00125000
Penwell Employee Royalty Pool 600 N. Marienfeld, Suite 1100 Midland, TX 79701	----- 1/4 x 0.15% x 8/8 -----	<u>.00037500</u>
Total Overriding Royalty:		.02375000

Operating Rights:

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Mitchell Energy Corporation	50% x .875	50.00%	.43750000
Santa Fe Energy Resources, Inc.	25% x .875	25.00%	.21875000
Penwell Energy, Inc.	6.9375% x .78	6.9375%	.05411250
CoEnergy Central Exploration, Inc.	18.0625% x .78	<u>18.0625%</u>	<u>.14088750</u>
Total Working Interest:		100.0000%	.85125000

D. **NM-96858: N/2 NE/4, SE/4 NE/4 and N/2 SE/4**

Overriding Royalty Interests:

	<u>Calculation</u>	<u>Net Interest in Production</u>
John Thoma 2601 Camarie Midland, Texas 79705	-----0.60% x 8/8 -----	.00600000
C. Mark Wheeler 3001 Northtown Midland, Texas 79705	-----0.25% x 8/8 -----	.00250000
Paul R. Barwis 2201 Southampton Lane Midland, Texas 79705	-----0.50% x 8/8 -----	.00500000
Jareed Partners, Ltd. 2407 Bellechase Court Midland, Texas 79705	-----0.50% x 8/8 -----	.00500000
Penwell Employee Royalty Pool 600 N. Marienfeld, Suite 1100 Midland, TX 79701	-----0.15% x 8/8 -----	<u>.00150000</u>
Total Overriding Royalty:		.02000000

Operating Rights:

	<u>Calculation</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Penwell Energy, Inc. -----	27.75% x .855 -----	27.75% -----	.23726250
CoEnergy Central Exploration, Inc. ---	72.25% x .855 -----	<u>72.25%</u> -----	<u>.61773750</u>
Total Working Interest:		100.00% -----	.85500000

COMMUNITIZED INTERESTS

(See Exhibit "A")

OIL AND GAS LEASES

Lease No. NM NM 70896:

Serial No.:	NM NM 70896.
Dated Effective:	April 1, 1988.
Recorded:	No.
Lessor:	United States of America.
Original Lessee:	Vernon Alvin Burfiend.
Present Record Lessees:	Pitch Energy Corporation.
Primary Term:	Ten (10) years from April 1, 1988.
Land Description:	SE/4 SE/4 Section 28; T20S, R33E, NMPM
Covers:	Full mineral interest in said land, containing 40 acres.
Royalty:	12.5% on oil and gas.
Rentals:	\$1.00 per acre, per year for first 5 years; \$3.00 per acre thereafter.
Status:	Held by payment of Delay Rentals to April 1, 1997.
Minimum Royalty:	\$1.00 per acre or fraction thereof at the expiration of each lease year, or the difference between the actual royalty paid during the year if less than \$1.00 per acre, and the prescribed minimum royalty of \$1.00 per acre.
Form:	Sec. 17 Non-Competitive Public Domain Lease - Form 3110-11 (April 1986).
Stipulations:	None.
Assignment:	<ol style="list-style-type: none"> 1. Assignment of Record Title from Vernon Alvin Burfiend to John B. Castle dated April 4, 1988, approved May 1, 1988, unrecorded, assigning 100% interest in this lease as to the SE/4 SE/4 of Section 28, without reservation. 2. Assignment of Record Title from John Castle and wife, Ruby Lee Castle to Bulldog Energy Corporation dated October 24, 1991, approved December 1, 1991, recorded Book 469, page 472 OG Records, assigning 100% interest in this lease as to the SE/4 SE/4 of Section 28, reserving an overriding royalty of 6.25% x 8/8. 3. Assignment of Record Title from Bulldog Energy Corporation to Pitch Energy Corporation dated October 19, 1992, approved January 1, 1993, recorded in Book 489, page 383 OG Records, assigning 100% interest in this lease as to the SE/4 SE/4 of Section 28, without reservation.

tion, but subject to the 6.25% overriding royalty previously reserved.

4. Assignment of Overriding Royalty Interest from John Castle and wife, Ruby Lee Castle to Pitch Energy Corporation dated April 19, 1996, recorded in Book 722, page 774, Eddy County Records, assigning 2% of 8/8 overriding royalty interest.

5. Term Assignment of Oil and Gas Lease from Pitch Energy Corporation to Nearburg Exploration Company, L.L.C., effective May 1, 1996, recorded in Book 728, page 688, Eddy County Records, assigning 100% interest in this lease for a primary term of one (1) year and so long thereafter as oil or gas is produced in paying quantities or operations are conducted with no cessation in excess of sixty (60) continuous days, and reserving an overriding royalty equal to the difference between 24% of 8/8 and burdens of record. (No corresponding Transfer of Operating Rights has been filed with the Bureau of Land Management.)

Lease No. NM NM 82927:

Serial No.:	NM NM 82927.
Dated Effective:	November 1, 1989.
Recorded:	No.
Lessor:	United States of America.
Original Lessee:	Strata Production Company.
Present Record Lessees:	Strata Production Company.
Primary Term:	Five (5) years from November 1, 1989
Land Description:	S/2 SW/4 and SW/4 SE/4 of Section 28; T20S, R33E, NMPM
Covers:	Full mineral interest in said land, containing 120 acres (40 acres out of captioned land).
Royalty:	12.5% on oil and gas.
Rentals:	\$1.00 per acre, per year for primary term; \$2.00 per acre thereafter.
Status:	Held by production under CA #NM88522.
Minimum Royalty:	\$1.00 per acre or fraction thereof at the expiration of each lease year, or the difference between the actual royalty paid during the year if less than \$1.00 per acre, and the prescribed minimum royalty of \$1.00 per acre.
Form:	Competitive Lease - Form 3100-11b (August 1988).
Stipulations:	This lease contains a Potash Stipulation.
Assignments:	1. Assignment of Overriding Royalty Interest from Strata Production Company to Steve Mitchell (0.5%), George L. Scott III (0.5%), and Scott Exploration, Inc. (0.5%) dated November 7, 1995, recorded in Book 611, page 653, Miscellaneous Records.

2. Transfer of Operating Rights from Strata Production Company dated November 7, 1995, recorded in Book 611, page 656, Miscellaneous Records, assigning 81.5% working interest to Arrowhead Oil Corporation (6.25%), Branko, Inc. (1.5625%), Duane Brown (5%), S. H. Cavin (2%), Robert W. Eaton (1.5625%), Terry and Barb Kramer (30%), LandWest, a Utah General Partnership (1%), Candace McClelland (2.125%), Permian Hunter Corporation (4%), Scott Exploration, Inc. (9%), Warren, Inc. (5%), Charles I. Wellborn (2%), Winn Investments, Inc. (1%),

Lori Scott Worrall (1%), and Xion Investments (10%), subject to the 1.5% ORRI previously assigned. This Transfer was approved by the BLM on March 1, 1996.

3. Transfer of Operating Rights from Strata Production Company (18.5%) and Winn Investments, Inc. (1%), to Murphy Petroleum Corporation, dated June 24, 1996, recorded in Book 744, page 44, Eddy County Records, assigning 19.5% working interest, and reserving a proportionately reduced ORRI equal to the difference between 50% of 8/8 and burdens of record.

4. Transfer of Operating Rights from Terry Kramer and Barb Kramer to Murphy Petroleum Corporation dated June 7, 1996, recorded in Book 744, page 48, Eddy County Records, assigning 30% working interest, reserving an ORRI equal to the difference between 50% of 8/8 and burdens of record.

5. Transfer of Operating Rights from LandWest, Permian Hunter Corporation, and Xion Investments to Murphy Petroleum Corporation, dated June 10, 1996, recorded in Book 744, page 51, Eddy County Records, assigning 15% working interest, and reserving a proportionately reduced ORRI equal to the difference between 50% of 8/8 and burdens of record.

6. Transfer of Operating Rights from S. H. Cavin and wife, Marion K. Cavin, Candace McClelland and husband, James G. McClelland, Scott Exploration, Inc., and Lori Scott Worrall and husband, John G. Worrall, to Murphy Petroleum Corporation dated June 14, 1996, recorded in Book 744, page 56, Eddy County Records, assigning 14.125% working interest and reserving a proportionately reduced overriding royalty equal to the difference between 50% of 8/8 and burdens of record.

7. Transfer of Operating Rights from Duane Brown dealing in his separate property, Robert W. Eaton, et ux, Charles I. Wellborn, et ux, and Warren, Inc., to Murphy Petroleum Corporation dated June 13, 1996, recorded in Book 744, page 62, Eddy County Records, assigning 13.5625% working interest and reserving a proportionately reduced overriding royalty equal to the difference between 50% of 8/8 and burdens of record.

Lease No. NM NM 90907:

Serial No.:	NM NM 90907.
Dated Effective:	June 1, 1993.
Recorded:	No.
Lessor:	United States of America.
Original Lessee:	Mitchell Energy Corporation.
Present Record Lessees:	Mitchell Energy Corporation, Santa Fe Energy Resources, Inc. and Maralo Inc.
Primary Term:	Ten (10) years from June 1, 1993
Land Description:	SW/4 NE/4 of Section 28; T20S, R33E, NMPM
Covers:	Full mineral interest in the said land, containing 40 acres.
Royalty:	12.5% on oil and gas.

Rentals:	\$1.50 per acre, per year for the first five (5) years; \$2.00 per acre thereafter.
Status:	Held by payment of delay rentals to June 1, 1997.
Minimum Royalty:	\$1.00 per acre or fraction thereof at the expiration of each lease year, or the difference between the actual royalty paid during the year if less than \$1.00 per acre, and the prescribed minimum royalty of \$1.00 per acre.
Form:	Competitive Lease - Form 3100-11b (August 1988).
Stipulation:	This lease contains a Potash Stipulation.
Assignments:	<ol style="list-style-type: none">1. Assignment of Record Title from Mitchell Energy Corporation to Santa Fe Energy Operating Partners, LP (25%) and Maralo Inc. (25%) dated November 4, 1993, approved September 1, 1993. A Transfer of Operating Rights of same date is recorded in Book 489, page 383 OG Records.2. Assignment of Overriding Royalty Interest from Maralo Inc. to John Thoma, dated September 1, 1995, recorded in Book 611, page 729, Miscellaneous Records, assigning an overriding royalty equal to 1.5% of Assignor's net revenue interest.3. Assignment of Overriding Royalty Interest from Maralo Inc. to Mary Ralph Lowe, Trustee, dated September 30, 1995, recorded in Book 612, page 313, Miscellaneous Records, assigning an overriding royalty equal to the difference between 20% of 8/8 and burdens of record.4. Transfer of Operating Rights from Maralo Inc. to Penwell Energy, Inc. dated November 30, 1995, approved January 1, 1996, recorded in Book 612, page 764, and re-recorded in Book 701, page 197, assigning 25% working interest subject to previously assigned burdens of 7.5%, proportionately reduced.5. Assignment of Overriding Royalty Interest from Penwell Energy, Inc. dated December 1, 1995, recorded in Book 613, page 506, Miscellaneous Records, to C. Mark Wheeler (0.25%), John Thoma (0.60%), Paul R. Barwis (0.50%), James E. Geitgey (0.50%) and Penwell Employee Royalty Pool (0.15%).6. Transfer of Operating Rights from Penwell Energy, Inc. to CoEnergy Central Exploration, Inc. dated December 1, 1995, approved April 1, 1996, recorded in Book 716, page 617, Eddy County Records, assigning 18.0625% working interest subject to 9.5% overriding royalty previously assigned.7. Assignment of Overriding Royalty Interest from James E. Geitgey to Jared Partners, Ltd., dated December 30, 1996, recorded in Book 768, page 735, Eddy County Records, assigning all overriding royalty interest.

Lease No. NM NM 96858:

Serial No.:	NM NM 96858.
Dated Effective:	June 1, 1996.
Recorded:	Book 729, page 391, Eddy County Records.

Lessor:	United States of America.
Original Lessee:	Penwell Energy, Inc.
Present Record Lessees:	Penwell Energy, Inc.
Primary Term:	Ten (10) years from June 1, 1996
Land Description:	N/2 NE/4, SE/4 NE/4, and N/2 SE/4 of Section 28; T20S, R33E, NMPM
Covers:	Full mineral interest in said land, containing 200 acres.
Royalty:	12.5% on oil and gas.
Rentals:	\$1.50 per acre, per year for the first five (5) years; \$2.00 per acre thereafter.
Status:	Held by payment of delay rental to June 1, 1997.
Minimum Royalty:	\$1.00 per acre or fraction thereof at the expiration of each lease year, or the difference between the actual royalty paid during the year if less than \$1.00 per acre, and the prescribed minimum royalty of \$1.00 per acre.
Form:	Competitive Lease - Form 3100-11b (August 1988).
Stipulation:	This lease contains a Potash Stipulation.
Assignments:	None reflected. (See Requirement No. 7)

PATENT

None.

ENCUMBRANCES

None.

RIGHTS OF WAY

- A. NM-0263388. Pipeline right of way.
- B. NM-19498: 50 foot pipeline right of way.
- C. NM-90698: 30 foot pipeline right of way.
- D. NM-91122: 50 foot pipeline right of way.
- E. NM-95982: 50 foot pipeline right of way.

TAXES

Not applicable.

REQUIREMENTS

1.

Lease NM NM-82927 is purportedly held by production pursuant to Communitization Agreement No. NM-88522.

DRILLING REQUIREMENT: Furnish evidence or satisfy yourselves that this lease has been held in full force and effect to date by continuous commercial production.

2.

I note the varying leasehold ownership under each of the above reflected leases.

DRILLING REQUIREMENT: If you require the entire E/2 of this Section 28 as a proration unit for your proposed well, then appropriate arrangements should be made:

- a. To enter into an operating agreement or other agreement with the operating rights owners under each of these leases providing for joint operations or some type of "earning" arrangement; and
- b. To obtain communitization of these lands by execution and acknowledgment by each working interest owner of the appropriate communitization agreement and approval of same from the Secretary of the Interior.

PRODUCTION REQUIREMENT: All owners of overriding royalty interests in the captioned lands should ratify your communitization agreement.

3.

I note the rights of way reflected above.

DRILLING REQUIREMENT: Locate said rights of way on the ground and avoid same in conducting your operations.

4.

I note the special surface/potash stipulations applicable to Leases NM-82927, NM-90907, and NM-96858.

DRILLING REQUIREMENT: Comply with these stipulations in conducting your operations.

5.

I note the lease anniversary dates of each of these leases (with the exception of NM-82927, which is held by production). If you fail to commence operations prior to the anniversary date of any of these leases, or if you commence such operations and continue same across any such anniversary date, the delay rentals required by each of said leases should be properly and timely paid.

DRILLING REQUIREMENT: As stated.

6.

I have credited to Jareed Partners, Ltd. all overriding royalty interest previously vested in James E. Geitgey, pursuant to Assignment dated December 30, 1996, recorded in Book 768, page 735. I note that the Assignor's spouse did not join in the execution of this Assignment.

PRODUCTION REQUIREMENT: In the event of production, furnish evidence that James E. Geitgey was a single man at the date of acquisition of his interests or obtain a Correction Assignment executed and acknowledged by Mr. Geitgey and his spouse and file same for record in Lea County, New Mexico.

7.

I have credited to the overriding royalty owners commencing with John Thoma and ending with Penwell Employee Royalty Pool the overriding royalty interest reflected above under Lease NM NM-96858 and have credited to CoEnergy Central Exploration, Inc. a 72.25% operating rights interest in said lease, although no assignments in favor of said parties are reflected with the Bureau of Land Management or of record in Lea County, New Mexico.

PRODUCTION REQUIREMENT: In the event of production, appropriate Assignments of Overriding Royalty and Transfers of Operating Rights should be executed in favor of said parties and filed with the appropriate authorities.

COMMENTS

1.

All operations should be conducted in accordance with the terms and provisions of these leases, the rules and regulations of the Bureau of Land Management and/or Minerals Management Service and the rules and regulations of the New Mexico Oil Conservation Division.

2.

This opinion is based in part upon the records of Caprock Title Company and I cannot be responsible for mistakes in or omissions from such records which I have been unable to detect.

3.

I do not cover herein questions of boundary, area, excesses, conflicts with adjacent tracts or surveys, unrecorded production purchase contracts, unpaid bills for labor or materials which may ripen into mechanic's or materialman's liens, rights of persons, if any, in possession, nor any other matters not specifically included in the materials examined.

The abstract examined is returned herewith.

Very truly yours,



Rudolph A. Woerndle, P.C.

RAW:ibu
Enc.