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October 6, 1997

ORIGINAL DIVISION ORDER TITLE OPINION



Santa Fe Energy Resources, Inc.
1616 South Voss, Suite 700
Houston, TX 77057

Attention: Mr. J. E. Taylor, CDOA

Re: Your Gaucho Unit No. 2-Y Well (SFER Inc. No. 30107-92Y) - Federal Oil and Gas Leases NM 61360 and NM 69596, insofar as said leases cover the respective portions designated below of the S/2 of Section 29, T-22-S, R-34-E, N.M.P.M., Lea County, New Mexico, limited to gas and associated liquid hydrocarbons producible from the Morrow Formation:

NM 61360: SE/4 of said Section 29, containing 160 acres, more or less; and

NM 69596: SW/4 of said Section 29, containing 160 acres, more or less.

Gentlemen:

At your request, we have examined the following:

MATERIALS EXAMINED

Prior Title Opinion

Copy of our Original Drilling Title Opinion dated October 10, 1996, addressed to you, based upon the prior title opinions, abstracts and instruments described therein, covering captioned land from inception of the records to September 18, 1996 at 9:00 a.m., as to the Records in the United States Department of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico, and from inception of the records to September 9, 1996 at 7:00 a.m., as to the Records in the Office of the County Clerk of Lea County, New Mexico.

Abstracts

1. Supplemental Abstract No. 48774, certified by Federal Abstract Company as covering the Plat Book Records, Historical Index Records, Case Abstract and Case File for Federal Oil and Gas Leases NM 61360 and NM 69596, in the United States Department of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico, insofar as said leases cover the S/2 of Section 29 from September 18, 1996 at 9:00 a.m. to September 16, 1997 at 9:00 a.m., containing 24 pages.

2. Supplemental Abstract No. 97-435, certified by Elliott & Waldron Title and Abstract Co., Inc., as covering the mineral estate only in captioned land from September 9, 1996 at 7:00 a.m. to September 8, 1997 at 7:00 a.m., containing 4 pages.

Instruments

1. Your lease files covering captioned land.



2. Copy of Assignment No. 11 analyzed below.

OWNERSHIP OF PRODUCTION

Based upon examination of the foregoing and subject to the title requirements and other matters set forth below, we find the gas and associated liquid hydrocarbons produced and saved from the Morrow Formation underlying captioned land to be owned as follows:

Royalty:

United States of America 12500000

Leasehold Estate:

Before Payout plus 200%*:

Overriding Royalty Interests:

Lynn A. Sawyer and husband, Paul Sawyer	160/320 of 7.5%	.03750000
Robert E. Landreth	160/320 of 4.677083%	.02338542
Scott W. Tanberg	160/320 of 1.822917%	.00911458
Fred L. Engle	160/320 of 4.0%	.02000000

Working Interests:

Santa Fe Energy Resources, Inc.	160/320 of 50% of 7/8 WI plus 160/320 of 50% of 81.25% of 7/8 WI less 50% of 160/320 of 7.5% ORI less 50% of 81.25% of 160/320 of 10.5% ORI	.35640625
Southwestern Energy Production Company	160/320 of 50% of 7/8 WI plus 160/320 of 50% of 81.25% of 7/8 WI less 50% of 160/320 of 7.5% ORI less 50% of 81.25% of 160/320 of 10.5% ORI	.35640625
Robert E. Landreth	160/320 of 18.75% of 7/8 WI less 160/320 of 18.75% of 10.5% ORI	.07218750

After Payout plus 200%*:

Overriding Royalty Interests:

Lynn A. Sawyer and husband, Paul Sawyer	160/320 of 7.5%	.03750000
Robert E. Landreth	160/320 of 4.125%	.02062500
Scott W. Tanberg	160/320 of 2.375%	.01187500
Fred L. Engle	160/320 of 4.0%	.02000000

Working Interests:

Santa Fe Energy Resources, Inc.	160/320 of 50% of 7/8 WI less 50% of 160/320 of 7.5% ORI	.20000000
Southwestern Energy Production Company	160/320 of 50% of 7/8 WI less 50% of 160/320 of 7.5% ORI	.20000000

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Robert E. Landreth	160/320 of 75% of 7/8 WI less 160/320 of 75% of 10.5% ORI	.28875000
Amerada Hess Corporation	160/320 of 25% of 7/8 WI less 160/320 of 25% of 10.5% ORI	.09625000

- * As provided for in Compulsory Pooling Order R-10764, entered February 14, 1997 in Case No. 11715 of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico.

EXISTING OIL AND GAS LEASES

Lease No. 1:

Serial No.: NM 61360.

Date: July 1, 1985.

Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.

Lessor: The United States of America.

Lessee: G. B. Zimmerman.

Land Covered: T-22-S-R-33-E-N.M.P.M.
Section 25: W/2
Section 26: NE/4 NE/4, S/2 NE/4,
SW/4, SW/4 SE/4

T-22-S-R-34-E-N.M.P.M.
Section 20: NW/4
Section 29: SE/4

Lea County, New Mexico, containing 960 acres, more or less.

Primary Term: Ten (10) years from date.

Delay Rentals: Rentals in the sum of \$1.00 per acre during the first five years and \$3.00 per acre thereafter are payable to Lessor in advance of each lease year.

Royalties: 12.5% on production removed and sold from the leased premises, computed in accordance with federal regulations.

Minimum Royalty: Minimum royalties shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at the end of each lease year.

Lease Form: Form 3100-11 (March 1984) (Simultaneous Non-Competitive).

Stipulations: (a) In order to protect important seasonal antelope habitat, exploration, drilling and other activity will be allowed during the period from June 16 through April 14. This limitation does not apply to maintenance and operation of producing wells.

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(b) Drill sites will be located outside forb producing depressions within swale bottoms.

Lease No. 2:

Serial No.: NM 69596.

Date: December 1, 1987.

Recorded: Unrecorded; however, it is unnecessary to record this lease in the county records.

Lessor: The United States of America.

Lessee: Lynn A. Sawyer.

Land Covered: T-22-S, R-14-E, N.M.P.M.
 Section 19: SW/4 NE/4
 Section 29: W/2
 Section 30: Lots 1, 2, 3, 4, NE/4, E/2 W/2

Lea County, New Mexico, containing 830.64 acres, more or less.

Primary Term: Ten (10) years from date.

Delay Rentals: Rentals in the sum of \$1.00 per acre during the first five years and \$3.00 per acre thereafter are payable to Lessor in advance of each lease year.

Royalties: 12.5% on production removed and sold from the leased premises, computed in accordance with federal regulations.

Minimum Royalty: Minimum royalties shall be due for any lease year after discovery in which royalty payments aggregate less than \$1.00 per acre. Lessee shall pay such difference at the end of each lease year.

Lease Form: Form 3100-11 (April 1986) (Simultaneous Non-Competitive).

Stipulations: (a) In order to protect important seasonal antelope habitat, exploration, drilling and other activity will be allowed during the period from June 16 through April 14. This limitation does not apply to maintenance and operation of producing wells.

(b) Drill sites will be located outside forb producing depressions within swale bottoms.

History of Lease: In addition to the land described above, this lease originally covered Lots 1, 2, NE/4 and E/2 NW/4 of Section 18 and Lots 1, 2 and E/2 NW/4 of Section 19, T-22-S, R-34-E, N.M.P.M., Lea County, New Mexico, containing 472.72 acres, more or less. By virtue of the fact that this acreage was not committed to the Gaucho Unit, this lease was segregated, with the above-described portions of Sections 18 and 19 being assigned Serial No. NM 98250. This segregation is evidenced by Decision dated January 29, 1997, effective March 20, 1996.

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ASSIGNMENTS

1. By Assignment of Record Title dated July 28, 1986, approved September 1, 1986, recorded in Book 401, page 903, Oil and Gas Records, Gordon B. Zimmerman and wife, Mary K. Zimmerman, assigned all of their interest in Lease No. 1 to Fred L. Engle.
2. By Transfer of Operating Rights dated August 8, 1989, approved October 1, 1989, recorded in Book 522, page 5, Miscellaneous Records, Fred L. Engle assigned all of his interest in the operating rights in Lease No. 1, insofar as it covers the SE/4 of Section 29, among other land, to Robert E. Landreth, reserving an overriding royalty interest equal to 5% of production from the assigned premises.
3. By Transfer of Operating Rights dated September 14, 1990, approved October 1, 1990, apparently unrecorded in the county records, Lynn A. Sawyer and husband, Paul Sawyer, assigned all of their interest in the operating rights in Lease No. 2, insofar as it covers the W/2 of Section 29, among other land, as to the Atoka and Morrow Formations only, to Sun Operating Limited Partnership, reserving an overriding royalty interest equal to 9% of production from the assigned premises. This assignment is made subject to a letter agreement dated September 13, 1990, between the parties.
4. By Transfer of Operating Rights dated November 9, 1992, approved January 1, 1993, apparently unrecorded in the county records, Sun Operating Limited Partnership reassigned all of its interest in the operating rights in Lease No. 2 to Lynn A. Sawyer and husband, Paul Sawyer.
5. By Assignment of Record Title dated August 11, 1994, approved October 1, 1994, recorded in Book 511, page 690, Oil and Gas Records, Lynn A. Sawyer and husband, Paul Sawyer, assigned all of their interest in Lease No. 2, insofar as it covers the W/2 of Section 29, among other land, to Santa Fe Energy Operating Partners, L.P., reserving an overriding royalty interest equal to 7.5% of production from the assigned premises. This assignment is made for a term ending July 1, 1996, unless before that date production in paying quantities is obtained from the assigned premises or lands pooled therewith, and provided that Assignors receive the first payment on their overriding royalty interest before July 1, 1996. The overriding royalty interest must be a minimum of 50% of 7.5% of production attributable to the assigned premises. By First Amendment of Term Assignment dated May 8, 1996, recorded in Book 736, page 31, Lea County Records, the termination date of this assignment was extended to December 31, 1996.
6. By Transfer of Operating Rights dated November 30, 1994, approved April 1, 1995, recorded in Book 605, page 285, Miscellaneous Records, Robert E. Landreth and wife, Donna P. Landreth, assigned 100% of the operating rights in Lease No. 1, insofar as it covers the SE/4 of Section 29, among other land, to Amerada Hess Corporation, reserving an overriding royalty interest equal to 5.5% of production from the assigned premises.
7. By instrument dated December 29, 1994, recorded in Book 598, page 632, Miscellaneous Records, Santa Fe Energy Operating Partners, L.P. was merged into Santa Fe Energy Resources, Inc.
8. By Transfer of Overriding Royalty Interest dated June 27, 1995, recorded in Book 606, page 720, Miscellaneous Records, Fred L. Engle assigned an overriding royalty interest equal to 1% of production from the SE/4 of Section 29, among other land, under the terms of Lease No. 1, to Scott W. Tanberg.
9. By Transfer of Operating Rights dated October 12, 1995, approved December 1, 1995, recorded in Book 707, page 77, Lea County Records, Amerada Hess Corporation assigned an undivided 75% interest in the operating rights in Lease No. 1, insofar as it covers the SE/4 of Section 29, among other land, from the surface down to the base of the Morrow Formation, to Robert E. Landreth. This assignment is made subject to the terms of a Letter Agreement dated May 26, 1995, between the parties.

10. By Transfer of Operating Rights dated October 10, 1995, approved February 1, 1996, apparently unrecorded in the county records, Santa Fe Energy Resources, Inc. assigned an undivided 50% of the operating rights in Lease No. 2 to Southwestern Energy Production Company.

11. By Transfer of Overriding Royalty Interest as yet unexecuted, Robert E. Landreth and wife, Donna P. Landreth, assigned to Scott W. Tanberg an overriding royalty interest equal to 8229166% of production from the SE/4 of Section 29, from the surface down to the base of the Morrow Formation, before Payout, increasing to 1.375% of production after Payout. Payout, as used in this assignment, refers to the point in time at which all costs, expenses and penalties provided for in Compulsory Pooling Order R-10764, entered February 14, 1997 in Case No. 11715 of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico, have been paid.

UNIT AGREEMENT

Captioned land is subject to the Unit Agreement for the Development and Operation of the Gaucho Unit Area dated December 20, 1995, approved by the Bureau of Land Management effective March 20, 1996, covering all oil and gas in any and all formations under the following-described lands situated in Lea County, New Mexico:

T-22-S. R-34-E N.M.P.M.

Section 17: All
Section 19: E/2
Section 20: All
Section 29: All
Section 30: All

containing 2,870.64 acres, more or less.

Santa Fe Energy Resources, Inc. is designated as Unit Operator. All costs and expenses incurred by the Unit Operator in conducting unit operations shall be paid and apportioned among the owners of the working interests in accordance with the Operating Agreement entered into between the parties. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Unit Operator shall submit for approval by the AO, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all the land regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, effective as of the date of completion of such well or the effective date of this Unit Agreement, whichever is later. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced in a single pool or zone. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating and other production or development purposes, or for repressuring or recycling in accordance with the plan of development and operations that has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased federal land, if any, included in the participating area established for such production. Each tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land included in the participating area.

The Unit Operator must commence the drilling of an adequate test well at a location approved by the AO within six months after the effective date of the agreement and to continue such drilling diligently until the Morrow "A" Sand has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities, or the Unit Operator shall at any time establish to the satisfaction of the AO that further drilling of the well would be unwarranted or impracticable; provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 13,050 feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six months between the completion of one well and the commencement of drilling

operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Within six months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for approval of the AO an acceptable plan of development and operation for the unitized land which, when approved by the AO, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. The Unit Agreement has been executed or ratified by Santa Fe Energy Resources, Inc., Southwestern Energy Production Company, Conoco Inc. and J. O. Easley, Inc. The SE/4 of Section 29 has not been committed to the Gaucho Unit, although it lies within the boundaries of the unit.

OPERATING AGREEMENT

The oil and gas leasehold estate in captioned land is subject to the terms of an Operating Agreement dated May 1, 1996, between Santa Fe Energy Resources, Inc., as Operator, and Southwestern Energy Production Company and Robert E. Landreth, as Non-Operators. The agreement is prepared on AAPL Form 610-1982, and contains a 100%/300% non-consent penalty. The preferential right to purchase provision has been stricken from the agreement, and it contains numerous other additions and deletions with which we presume you are familiar. The Operating Agreement initially was executed by Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company. It was executed by Robert E. Landreth on April 30, 1997. Exhibit "A" attached to the Operating Agreement, as amended, includes as Contract Area "B" the S/2 of Section 29, from the surface down to the base of the Morrow Formation. The interests of the parties are set forth as follows:

<u>Owner</u>	<u>BPO 300%</u>	<u>APO 300%</u>
Santa Fe Energy Resources, Inc.	45.3125%	25%
Southwestern Energy Production Company	45.3125%	25%
Amerada Hess Corporation	-0-	12.5%
Robert E. Landreth	9.375%	37.5%

Amerada Hess Corporation has not executed the Operating Agreement.

COMMUNITIZATION AGREEMENT

The Morrow, Azoka, Strawn and Wolfcamp Formations underlying the S/2 of Section 29 are subject to the terms of Communitization Agreement NM 94525, dated March 1, 1997, approved May 14, 1997, covering natural gas and associated liquid hydrocarbons produced from said formations. This Communitization Agreement has been executed Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company.

EXPLORATION AGREEMENT

The interests owned by Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company in the oil and gas leasehold estate in captioned land are subject to the terms of an Exploration Agreement dated July 17, 1995, between Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company. Under the terms of this agreement, Santa Fe agrees to assign to Southwestern an undivided 50% of its interest in all existing leases in each prospect. In addition, each prospect is established as an Area of Mutual Interest for three years from the date of the agreement. In the event one of the parties to the agreement acquires a lease covering lands within a prospect from a third party (as defined in the agreement, a lease includes a farmout agreement), the acquiring party will promptly notify the non-acquiring party of its acquisition in writing, including a description of the interests acquired, the total cost of the interests, including all land and legal costs associated with the acquisition, the proportionate share of such interest that the non-acquiring party

is entitled to acquire, and any other pertinent terms of the acquisition, including copies of pertinent documents. The non-acquiring party shall then have 20 days from the receipt of such notice to elect to acquire its proportionate share of the subsequently acquired lease. If the acquiring party has not received an election in writing from the non-acquiring party within said 20-day period, the non-acquiring party conclusively shall be presumed to have elected not to acquire its proportionate share of the subsequently acquired lease, and this agreement shall no longer be effective as to such subsequently acquired lease.

The Exploration Agreement names Santa Fe Energy Resources, Inc. as Operator for all operations conducted on the lands covered thereby, and is made subject to the terms of an Operating Agreement attached to the Exploration Agreement as Exhibit "B". The agreement also provides that a separate Operating Agreement will be entered into for each prospect. The agreement also contains a provision whereby a party which elects not to participate in the drilling of the initial well on a prospect relinquishes all of its rights and interests in that prospect to the party electing to participate in the drilling of such initial well.

COMPULSORY POOLING PROCEEDINGS

Captioned land, from the surface down to the base of the Morrow Formation, is subject to Order R-10764, dated February 14, 1997, entered in Case No. 11715 of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico, creating a pooled unit consisting of the S/2 of Section 29, from the surface down to the base of the Morrow Formation. Pursuant to the terms of this order, Robert E. Landreth elected to participate in the drilling of the subject well with respect to an undivided 18.75% working interest in the SE/4 of Section 29, or an undivided 9.375% working interest in the proration unit for the subject well, and to be force pooled as to an undivided 56.25% working interest in the SE/4 of Section 29, or an undivided 28.125% working interest in the proration unit for the subject well. Amerada Hess Corporation elected to allow its interest in captioned land to be force pooled.

PATENT INFORMATION

The E/2 of Section 29 was awarded to the State of New Mexico by the Department of the Interior on July 28, 1930. All minerals were reserved to the United States of America.

The W/2 of Section 29 was patented to the State of New Mexico by Patent No. 30-69-0005, dated July 9, 1968. All minerals were reserved to the United States of America.

EASEMENTS

This opinion does not cover surface easements.

ENCUMBRANCES

None.

TAXES

Ad valorem taxes are not assessed against lands owned by the United States of America and the State of New Mexico.

TITLE REQUIREMENTS

1.

We direct your attention to the fact that the primary term of Lease No. 1 analyzed above has expired, and the primary term of Lease No. 2 will expire December 1, 1997. We note also that the abstracts furnished for examination reflect that rentals were paid to maintain the leases analyzed above in effect during their primary terms except for the time period from July 1, 1992 to July 1, 1993, as to Lease No. 1, and the time period from December 1, 1992 to December 1, 1993, as to Lease No. 2.

REQUIREMENT: You must satisfy yourself that rentals were paid to maintain the leases analyzed above in effect during the time periods set forth above. In addition, with respect to Lease No. 1, you must satisfy yourself that this lease has been maintained beyond the expiration of its primary term by drilling or development operations or continuous production in commercial quantities from the lands covered thereby or lands pooled therewith.

2.

We direct your attention to the unusual provisions contained in the leases, assignments and agreements covering captioned land, especially the terms of Assignment No. 5, as amended.

REQUIREMENT: You should thoroughly familiarize yourself with all of the terms and provisions of the leases, assignments and other agreements covering captioned land and be certain to conduct your operations accordingly.

3.

We direct your attention to the fact that Assignment No. 10 apparently has not yet been filed for record in Lea County, New Mexico.

REQUIREMENT: Assignment No. 10 should be filed for record in Lea County, New Mexico.

4.

Assignment No. 9 is made subject to the terms of a letter agreement dated May 26, 1995, between Amerada Hess Corporation and Robert E. Landreth, which has not been furnished for our examination.

REQUIREMENT: Submit for examination a copy of the above-described letter agreement or otherwise satisfy yourself as to its terms and provisions.

5.

Assignment No. 11 has not yet been executed.

REQUIREMENT: Assignment No. 11 should be executed, filed with the Bureau of Land Management as required by federal regulations and filed for record in Lea County, New Mexico.

6.

Inasmuch as the SE/4 of Section 29 has not been committed to the Gaucho Unit, it has become necessary to communitize the leases analyzed above to form a sufficient proration unit for the subject well. This communitization agreement has been executed by Santa Fe Energy Resources, Inc. and Southwestern Energy Production Company. However, it has not yet been executed or ratified by Robert E. Landreth, Scott W. Tanberg or Fred L. Engle.

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REQUIREMENT: Robert E. Landreth, Scott W. Tanberg and Fred L. Engle should be called upon to execute or ratify the communitization agreement analyzed above.

7.

We have assumed that the participating area for the subject well will consist of the S/2 of Section 29, but this must be confirmed.

REQUIREMENT: You should confirm our assumption that the participating area for the subject well consists of the S/2 of Section 29. If it does not, it will be necessary to recalculate the ownership of production from captioned land.

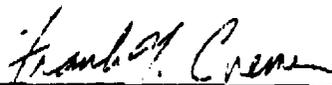
COMMENT

This opinion cannot cover such matters as area, boundaries, location on the ground or other matters which can be determined only by an actual ground survey.

The abstracts and lease files furnished for examination have been returned to Mr. Joe Hammond in your Midland office, together with a copy of this opinion.

Respectfully submitted,

TURNER & DAVIS

By: 

Frank N. Cremer

FNC:lf