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TEXAS BOARD OF LEGAL SPECIALIZATION
ALSO LICENSED IN NEW MEXICO

October 12, 2000

No. 8,285

Stealth Prospect
(S/2 Section 2)

OXY USA Inc.
6 Desta Drive, Suite 6000
Midland, Texas 79705

Attn: Kent Woolley, Land Manager

Re: ORIGINAL DRILLING TITLE OPINION covering the following described lands located in Township 18 South, Range 25 East, N.M.P.M., Eddy County, New Mexico:

United States of America Lease Serial Number NMNM 14757, insofar as it covers the following:

Section 2: NW/4 SW/4, containing 40 acres, more or less.

Richard E. Johnson, Jr., Oil and Gas Lease

Section 2: NE/4 SW/4 and N/2 SE/4, containing 120 acres, more or less.

Jack Folkner, et al. Oil and Gas Leases

Section 2: S/2 S/2, containing 160 acres, more or less.

Gentlemen:

At your request and for the purpose of rendering this opinion, we have examined the following:

MATERIALS EXAMINED

Abstracts

1. Abstract of Title No. 00,014, certified by Currier Abstract Company as covering the records maintained by the County and District Clerks of Eddy County, New Mexico, pertaining to the mineral estate only of the S/2 S/2 of Section 2, for the period from inception of the records to February 29, 2000, at 8:00 a.m., in seven volumes and containing 1217 pages.
2. Supplemental Abstract of Title No. 00,006, certified by Currier Abstract Company as covering the records maintained by the County and District Clerks of Eddy County, New Mexico, pertaining to the NW/4 SW/4 of Section 2, among other lands, for the period from July 26, 1999, at 8:00 a.m., to January 31, 2000, at 8:00 a.m., containing 25 pages.

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3. Supplemental Abstract of Title No. 00,007, certified by Currier Abstract Company as covering the records maintained by the County and District Clerks of Eddy County, New Mexico, pertaining to the NE/4 SW/4 and the N/2 SE/4 of Section 2, among other lands, for the period from: July 26, 1999, at 8:00 a.m. to February 1, 2000, at 8:00 a.m., containing 66 pages.
4. Abstract of Title No. 49544, certified by Federal Abstract Company as covering the Plat Book Records, Historical Index Records, Serial Register and Case File of NMNM 14757 in the United States Department of the Interior, Bureau of Land Management, State Office at Santa Fe, New Mexico, pertaining to the NW/4 SW/4 of Section 2, among other lands, for the period from the inception of the records to July 23, 1999, at 9:00 a.m., containing 80 pages.
5. Supplemental Abstract of Title No. 49777, certified by Federal Abstract Company as covering the Plat Book Records, Historical Index Records, Serial Register and Case File of NMNM 14757 in the United States Department of the Interior, Bureau of Land Management, State Office at Santa Fe, New Mexico, pertaining to the NW/4 SW/4 of Section 2, among other lands, for the period from July 23, 1999, at 9:00 a.m., to January 6, 2000, at 9:00 a.m., containing 8 pages.
6. Ownership Report dated November 13, 1998, concerning NMNM 14757 and another lease, prepared by Federal Abstract Company.

Instruments

1. Copy of Letter dated January 3, 2000, from Randy V. Watts, Independent Landman, to Cactus Energy, Inc., discussing his research of Kemp Lumber Company, a defunct New Mexico corporation.
2. Copy of Letter dated August 3, 1999, from the State of New Mexico Public Regulation Commission to Wendell Iverson, transmitting Items 3 through 8 below.
3. Copy of Amendment of Articles of Incorporation of Kemp Lumber Company dated February 17, 1905.
4. Copy of Kemp Lumber Company Stockholders Not-Liability Certificate dated July 21, 1906.
5. Copy of Kemp Lumber Company Board of Directors Resolution to Increase Capital Stock dated July 16, 1906.
6. Copy of Certificate as to the Payment of Capital Stock of Kemp Lumber Company dated August 13, 1906.
7. Copy of Certificate of Amendment of Kemp Lumber Company (extending the corporate existence of the corporation for a term of 50 years) dated May 11, 1953.
8. Copy of Stockholders' Consent to Extension of Term of Corporate Existence for Kemp Lumber Company dated April 28, 1953.
9. Copy of Participation Agreement dated July 22, 1999, covering the E/2 of Section 9 and all of Section 2, T18S R25E, NMPM, Eddy County, New Mexico, executed by Cactus Energy, Inc., and OXY USA Inc.

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10. Copy of Assignment of Oil, Gas & Mineral Lease dated February 1, 2000, effective October 2, 1999, recorded in Book 374, Page 613, Eddy County Records, from Cactus Energy, Inc., to Wendell W. Iverson, Jr.
11. Copy of unrecorded Assignment of Oil, Gas & Mineral Lease dated October 2, 2000, effective October 2, 1999, from Cactus Energy, Inc., to Wendell W. Iverson, Jr.

Eddy County Records

1. Personal examination of the records maintained by the County and District Clerks of Eddy County, New Mexico, based on an uncertified runsheet submitted by Wendell W. Iverson, Jr., prepared from the tract indices of Guaranty Abstract & Title Co., covering the captioned lands, among other lands, from inception of the records to July 26, 1999, at 8:00 a.m.
2. Copies of instruments listed on an uncertified runsheet compiled by Wendell W. Iverson, Jr., based on the tract indices of Caprock Abstract & Title Company, covering all instruments affecting title to the non-participating royalty interests burdening the N/2 SE/4 and the NE/4 SW/4 of Section 2, among other lands, filed of record in the offices of the County and District Clerks of Eddy County, New Mexico, from February 26, 1919, through October 1, 1999.

Based upon our examination of the foregoing materials, and subject to the requirements and comments hereinafter made, we find that with respect to the NW/4 SW/4 of Section 2, as of January 6, 2000, at 9:00 a.m., as to the federal records, and January 31, 2000, at 8:00 a.m., as to the records of Eddy County, New Mexico; and with respect to the S/2 S/2 of Section 2, as of February 29, 2000, at 8:00 a.m., as to the records of Eddy County, New Mexico; and with respect to the NE/4 SW/4 and the N/2 SE/4 of Section 2, as of February 1, 2000, at 8:00 a.m., as to the records of Eddy County, New Mexico; title to the captioned lands is vested as follows.

FEE TITLE

SURFACE:

NW/4 SW/4 of Section 2 (Lease 25 - NMNM 14757)

W. G. Kennedy, a/k/a William G. Kennedy,
whose wife is Betty L. Kennedy All

NE/4 SW/4 and N/2 SE/4 of Section 2 (Lease 2A)

W. G. Kennedy, a/k/a William G. Kennedy,
whose wife is Betty L. Kennedy All

S/2 S/2 of Section 2 (Lease 1 - 23)

Louis M. Campanella and Joe Campanella,
and their heirs or assigns (See Requirement 6) 3/4

Bonnie Florence McKinstry,
and her heirs or assigns (See Requirement 6) 1/4

OIL & GAS ESTATE:

NW/4 SW/4 of Section 2 (Lease 25 - NM(NM 14757)

United States of America All

NE/4 SW/4 and N/2 SE/4 of Section 2 (Lease 24)

Executive Right, Bonus and Delay Rentals:

Richard F. Johnson, Jr. All

Royalty:

Richard F. Johnson, Jr.^{1,2} 1/2

Charles R. Wiggins² 1/2

¹ **Note:** By six separate instruments executed during the 1940's, Laura E. Kelley, a predecessor in interest to Richard F. Johnson, Jr. in this land, conveyed an aggregated non-participating royalty interest equal to 6% of all oil and gas which may be produced from, among other lands, the N/2 SE/4 and the NE/SW of Section 2. This non-participating royalty interest will be borne by and deducted from Richard F. Johnson, Jr.'s royalty interest in the N/2 SE/4 and the NE/SW of Section 2. The following parties own this interest (See Requirements 8, 10 & 11):

Francis Currier and Michael Currier, Co. Trustees of the Charles E. Currier and Francis Currier Revocable Trust	.5% of 8/8
Michael C. Haley	5% of 8/8
Jean L. Hopp	1% of 8/8
Irma Davis, Executrix of the Estate of Virgil O. Hopp, deceased	1% of 8/8
H. P. Talley	1% of 8/8
Yates Brothers	1% of 8/8
<u>Scout Oil Company</u>	<u>1% of 8/8</u>
TOTAL	6% of 8/8

² **Note:** By Term Royalty Deed dated August 9, 1999, recorded in Book 560, Page 526, Eddy County Records, Richard F. Johnson conveyed to Charles R. Wiggins an undivided 1/2 interest in and to all of the oil, gas, and mineral royalty in the NE/4 SW/4 and N/2 SE/4 of the captioned land, among other lands, for a term expiring April 15, 2002, and as long thereafter as oil, gas or other minerals are being produced from the conveyed lands.

S/2 S/2 of Section 2 (Leases J - 23)

Billy James Van Winkle (Unleased) 1/15 x 1/48 *

Carl Lewis Folkner, Jr. (Unleased) 1/20 x 1/48 *

Scout Oil Company (Unleased) 3/16 *

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Mary Jane Lent (Lease 14) 1/96

Dena Kennedy Miller (Lease 8) 1/96

***Note:** Subsequent to executing Lease 13, Oran Edgar Van Winkle conveyed his royalty interest in the captioned land to Nantucket Resources Group, L.C., for a period of two years from October 25, 1999, and for as long thereafter as oil, gas or other minerals are produced from the captioned land or lands pooled therewith. Nantucket Resources Group, L.C. subsequently conveyed this interest to Douglas C. Koch and Wayne A. Bissett, in equal shares.

OIL AND GAS LEASEHOLD ESTATE

NMNM 14757 (Lease 25), insofar as it covers NW/4 SW/4 of Section 2:

Record Title & Operating Rights:

Altura Energy, Ltd.* 8/8 WI
(.82500000 NRI)

***Note:** The interest of Altura Energy, Ltd., is subject to a 5% overriding royalty interest owned by the following parties:

Elizabeth Gorman	1% of 8/8
Judy Harris	1/3 of 4% of 8/8
Scott A. Harris	1/3 of 4% of 8/8
Laurelind Corporation	1/3 of 4% of 8/8
Total	5% of 8/8

NE/4 SW/4 and N/2 SE/4 of Section 2 (Lease 24):

OXY USA Inc. 13/16 WI
(13/16 of .76) (.61750000 NRI)

Cactus Energy, Inc. 3/32 WI
(1/16 of 5/6) + (1/32 of .76) (.07583334 NRI)

Wendell W. Iverson, Jr. 3/32 WI
(1/16 of 5/6) + (1/32 of .76) (.07583333 NRI)

Richard Coats 2.4583333% ORRI
(1/2 of {[7/8 of (5/6 - 76%)] - 1.5%}) (.02458333 NRI)

Wendell W. Iverson, Jr. 2.4583333% ORRI
(1/2 of {[7/8 of (5/6 - 76%)] - 1.5%}) (.02458333 NRI)

Thomas R. Smith 1.5% ORRI
(1.5% of 8/8) (.01500000 NRI)

Total Working / Overriding Royalty Interests83333333 NRI

Total Leasehold Royalty16666667 NRI
1.00000000 NRI

S/2 S/2 of Section 2 (Leases 1 through 23):

Billy James Van Winkle (Unleased)	1/15 x 1/48 ULM
Carl Lewis Folkner, Jr. (Unleased)	1/20 x 1/48 ULM
Scout Oil Company (Unleased)	3/16 ULM
Kemp Lumber Company (Unleased)	1/4 ULM
Sharbro Oil Ltd. Co. (Unleased)	1/4 x 3/8 ULM
Yates Drilling Company (Unleased)	1/2 x 3/8 ULM
S. P. Yates, Frank W. Yates, Jr., and B. W. Harper, Personal Representatives of the Estate of Lillie M. Yates, Deceased (Unleased)	1/4 x 3/8 ULM

Total Unleased Mineral Interests	2347/2880 ULM (.81493055 NRI)
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OXY USA Inc.	(13/16 of 506/2880) + (13/16 of 27/2880) WI (13/16 of .76 of 506/2880) + (13/16 of 13/16 of 27/2880)	(.11468028 NRI)
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Cactus Energy, Inc.	(3/32 of 506/2880) + (1/16 of 27/2880) WI (1/16 of 13/16 of 506/2880) + (1/32 of .76 of 506/2880) + (1/16 of 13/16 of 27/2880)	(.01357080 NRI)
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Wendell W. Iverson, Jr.	(3/32 of 506/2880) + (1/16 of 27/2880) WI (1/16 of 13/16 of 506/2880) + (1/32 of .76 of 506/2880) + (1/16 of 13/16 of 27/2880)	(.01357080 NRI)
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Thomas R. Smith	1/16 of 27/2880 WI (1/16 of 13/16 of 27/2880)	(.00047607 NRI)
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Richard Coats	1.875% of 506/2880 ORRI (1/2 of {[7/8 of (13/16 - 76%)] - 1.5%} of 506/2880)	(.00271778 NRI)
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Wendell W. Iverson, Jr.	1.875% of 506/2880 ORRI (1/2 of {[7/8 of (13/16 - 76%)] - 1.5%} of 506/2880)	(.00271778 NRI)
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Thomas R. Smith	1.5% of 506/2880 ORRI	(.00263542 NRI)
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Total Working / Overriding Royalty Interests	.15036893 NRI
Total Unleased Mineral Interests	.81493055 NRI
Total Leasehold Royalty	.03470052 NRI
	1.60060000 NRI