

# CHASE OIL CORPORATION

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CERTIFIED MAIL

February 19, 2004

Jesse D. "Bo" Blue  
Preston Exploration, LLC  
P.O. Box 7520  
The Woodlands, Texas 77387-7520

Re: Roughneck Red 29 #1 Well  
1480' FNL, 1980' FWL  
Section 29, T17S, R26E  
Eddy County, New Mexico

Dear Mr. Blue:

Preston Exploration staked the captioned well on February 4, 2004. We have the following comments:

- Chase Oil Corporation acquired an Oil and Gas Lease dated January 26, 2004, from Denis C. Riley and wife, Jean Riley, covering a 1/3 mineral interest under the S/2N/2 of Section 29. The lease is recorded in Book 537, Page 1173 of the Eddy County Records. The lease contains numerous surface use provisions.
- Chase Oil Corporation acquired an Oil and Gas Lease dated February 1, 2004, from Chase Farms, a New Mexico general partnership, covering a 1/3 mineral interest under the S/2N/2 of Section 29. The lease is recorded in Book 538, Page 661 of the Eddy County Records. The lease contains a no surface use provision.
- The well has not been proposed to Chase Oil Corporation.
- Denis C. Riley owns the surface under a small portion of the leased premises. The balance of the surface, including your location, is owned by Chase Farms.
- While we agree that the S/2N/2 of Section 29 can be included in a N/2 spacing unit, we do not believe that Preston Exploration had any right to

Jesse D. "Bo" Blue  
Preston Exploration, LLC  
February 18, 2004  
Page 2

trespass upon the surface of the land and stake this well without the permission of Chase Farms or any leasehold owner in the S/2N/2 of Section 29. To the best of our knowledge, there are no agreements in place between any leasehold owner in the S/2N/2 of Section 29 and any leasehold owner in the N/2N/2 of Section 29.

- Chase Farms does not want any further oil and gas exploration conducted on its surface in the S/2N/2 of Section 29.
- We believe there is adequate space for a surface location in the NW/4NW/4 of Section 29.

Please give me a call if you have any questions.

Sincerely,

Chase Oil Corporation  
Chase Farms



Ronald W. Lanning  
Land Manager

RWL:

cc: Mark Wheeler – Capstone Oil & Gas Company, L.P.

Michael S. Daugherty – Murchison Oil & Gas Inc.

Richard H. Coates – Cactus Energy, Inc.

William F. Carr – Holland & Hart LLP