

OIL & GAS LEASE

THIS AGREEMENT made this 1st day of February, 2004 betweenChase Farms, a New Mexico general partnershipP.O. Box 658Artesia, New Mexico 88211

of (Post Office Address)

herein called lessor (whether one or more) and Chase Oil Corporation, P.O. Box 1767, Artesia, NM 88211, lessee.

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and/or into subsurface strata laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, store, care of, treat, process, store and transport said minerals, the following described land in: Eddy County, New Mexico, to-wit:

Township 17 South, Range 26 East, NMPMSection 29: S/2 N/2Said land is estimated to comprise 160.00 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of one years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, one-fourth of that produced and saved from said land; same to be delivered at the wells or to the credit of lessor in the pipeline in which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of one-fourth of the gas used,

provided that on gas sold on or off the premises, the royalties shall be one-fourth of the amount realized from such sale; (c) and at any time when this lease is not voided by other provisions hereof and there is a gas and/or condensate well on said land, or into pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to prices or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and other application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessor shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time to pool or combine this lease, the land covered by it or any part or portion thereof with any other land, leased, mineral interests or parts thereof for the production of oil or gas. Unless stated hereunder, lessee shall not exceed the standard production unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, with the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereof, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have the use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee or said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on covered lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessor; and no such change of ownership shall be binding upon lessee for any purpose until 60 days after lessee has been furnished by certified mail at lessor's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties to the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder; and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be furnished to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without movement of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

12. See Page 2 attached hereto for additional provisions.

NMOCD CASE NO. 13236

MAY 27, 2004

PRESTON EXPLORATION, LLC

EXHIBIT NO. 5

MIN. SEC. SERVICES
C/O BOSTON
P.O. Box 1000
Artesia, NM 88211-1000

13.

In addition to and notwithstanding any other provision herein, this Lease shall not terminate in whole or in part, regardless of whether production of oil or gas has been established from the Land at the end of the Primary term, so long as Lessee is engaged in Continuous Drilling Operations on the Land and, except as provided in this Article, so long thereafter as oil or gas is produced in paying quantities from the Land. "Continuous Drilling Operations" as used herein shall mean the drilling of wells without more than one hundred twenty (120) days elapsing between the completion of one well and the commencement of actual drilling of the next well, "completion" being the date a well is either plugged and abandoned or completed as set out in the official State form. The actual drilling of the first such well must be commenced as follows: (1) if at the end of the Primary Term there is no well capable of producing oil or gas in paying quantities on the Land, then on or before the end of the Primary Term; (2) if at the end of the Primary Term there is a well capable of producing oil or gas in paying quantities on the Land, but completion of the last well drilled during the Primary Term was more than one hundred twenty (120) days prior to the end of the Primary Term, then on or before the end of the Primary Term; or (3) if at the end of the Primary Term there is a well capable of producing oil or gas in paying quantities on the Land, but completion of the last well drilled during the Primary Term was less than one hundred twenty (120) days prior to the end of the Primary Term, then within one hundred twenty (120) days from completion of the last well drilled during the Primary Term. The commencement or continuation of continuous drilling operations shall be at Lessee's option and shall not be considered an obligation or covenant of Lessee. If the continuous drilling operations are not commenced within the time hereinbefore specified, or if, at any time after commencement of continuous drilling operations, more than one hundred twenty (120) days elapse between the completion of one well and the commencement of actual drilling of the next well, this Lease shall, at the end of the period of time within which Lessee was required to commence a well, terminate as to all the Land except those portions included within a proration unit established under the spacing and proration rules and regulations of any governmental body having jurisdiction for a well then capable of producing oil or gas in paying quantities or on which Lessee is then engaged in bona fide operations to establish or restore production of oil or gas. If this Lease is continued in force under the immediately preceding sentence as to a proration unit on which operations are being conducted in an effort to establish or restore production but on which there is no well then capable of producing oil or gas, this Lease shall likewise terminate upon cessation of such operations for a period of sixty (60) consecutive days unless such operations (on the same or an additional well or wells in the same proration unit) have resulted in the restoration or establishment of a well capable of producing oil or gas in paying quantities on such proration unit. Such proration units shall be designated by Lessee and shall be of such size and configuration as may be allowed by the spacing and well density rules and regulations of any governmental authority having jurisdiction. In the event this Lease has terminated under this Article, except as to producing proration units, and at any time there is no longer a well capable of producing oil or gas in paying quantities located on any such proration unit, this Lease shall also terminate as to such proration unit unless Lessee shall commence operations for the repair or reworking of a well or for the drilling of an additional well on such proration unit within sixty (60) days after cessation of production and diligently prosecute such operations on the same or an additional well or wells on such proration unit with no cessation of more than sixty (60) consecutive days during any operation or between such operations. If such operations are timely commenced and prosecuted as prescribed in the preceding sentence, and if they result in a well capable of producing oil or gas in paying quantities, then this Lease shall remain in effect as to such proration unit as though no cessation of production had occurred. Within thirty (30) days after any termination, Lessee shall furnish Lessor a recordable release for all the Lands, which have terminated under this Lease. Such release shall be free and clear of any liens and overriding royalties or other similar burdens which might have been created by Lessee or Lessee's successors or assigns.

14.

Notwithstanding anything to the contrary herein contained, Lessee shall not enter upon, occupy, traverse, or otherwise use the surface of the leased premises for any purpose. This Lease and the rights granted hereunder shall not be construed to permit or grant Lessee the right to use any portion of the surface of the leased premises for any purpose, however, Lessor agrees that Lessee may pool or combine the Land or any part thereof with other land to form a proration unit for the production of oil or gas pursuant to the rules and regulations of the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico.

All of the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their heirs, administrators, successors and assigns.

IN WITNESS WHEREOF, this instrument is executed as of the date first above written.

CHASE FARMS, a New Mexico General Partnership

Mack C. Chase

Mack C. Chase, General Partner
Tax ID 85-0354104

STATE OF NEW MEXICO §

COUNTY OF EDDY §

This instrument was acknowledged before me this 2nd day of February 2004, by Mack C. Chase, General Partner of Chase Farms, a New Mexico General Partnership.



OFFICIAL SEAL
STACI D. SANDERS
NOTARY PUBLIC - STATE OF NEW MEXICO
My commission expires: 2-15-05

Staci D. Sanders
Notary Public

RECEPTION NO: G401258 STATE OF
NEW MEXICO, COUNTY OF EDDY
RECORDED 02/05/2004 8:56 AM
BOOK 0538 PAGE 06616
JEAN BLENDEN, COUNTY CLERK

