

**CHI ENERGY, INC.**P.O. BOX 1799  
MIDLAND, TEXAS 79702

October 28, 2004

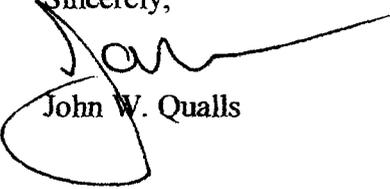
Eulalio Medrano  
2412 Harding Street  
Carlsbad, New Mexico 88220**"Certified-Return Receipt"****Re: Oil & Gas Lease  
Otis 33 #2 (Re-entry)  
990' FNL & 2130' FEL  
T-22S-R-27E (N/2)  
Sec. 33: Part of the E/2W/2NE/4  
Eddy County, New Mexico  
2 net acres**

Mr. Medrano:

Our record checking indicates you own 2.0 net acres in the NE/4 of Section 33-T-22S-R-27E, Eddy County, New Mexico. Enclosed is a AFE for the re-entry and completion attempt in the Wolfcamp Formation. Please sign in the space provided and return the AFE signature page to me. Should you desire not to participate, Chi Energy, Inc. offers you \$150.00 per net acre, 3/16ths royalty and a Three (3) year term for an Oil & Gas Lease on the above described lands. Please call me at the above number or send me a letter and I will prepare a draft and lease and send it to you.

Thanks for your help and please call should you have any questions.

Sincerely,

  
John W. Qualls

JWQ/fh

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER 2

Afe Estimate Summary  
CHI OPERATING, INC  
Report Date: 10/29/2004

Afe Id: 1 OTIS 33 #2  
Property Id: 200201-15 OTIS 33 #2  
Location: SEC. 33: T-22-S, R-27-E  
Operator: CHI OPERATING INC.

Field:  
St/County: NM/EDDY

Sub-Category

Estimate Cost

=====  
\*\*\* Owner Approval \*\*\*

Owner ID: 0056535      Owner Name: EULALIO MEDRANO

	AFE Estimate	-----Your Share----- %	\$
Completion	276,800.00	0.00625000	1,730.00
	----- 276,800.00		----- 1,730.00

Approved By: \_\_\_\_\_ Date: \_\_\_\_\_

Tax ID:

EULALIO MEDRANO  
2412 HARDING ST.  
CARLSBAD NM 88220

**CHI ENERGY, INC.**

P.O. BOX 1799

MIDLAND, TEXAS 79702

October 28, 2004

Lee Roy Lujan  
1421 Smedley Road  
Carlsbad, New Mexico 88220

**“Certified-Return Receipt”**

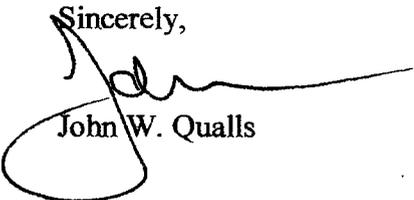
**Re: Oil & Gas Lease  
Otis 33 #2 (Re-entry)  
990' FNL & 2130' FEL  
T-22S-R-27E (N/2)  
Sec. 33: Part of the E/2W/2NE/4  
Eddy County, New Mexico  
1 net acre**

Mr. Lujan:

Our record checking indicates you own 1.0 net acre in the NE/4 of Section 33-T-22S-R-27E, Eddy County, New Mexico. Enclosed is a AFE for the re-entry and completion attempt in the Wolfcamp Formation. Please sign in the space provided and return the AFE signature page to me. Should you desire not to participate, Chi Energy, Inc. offers you \$150.00 per net acre, 3/16ths royalty and a Three (3) year term for an Oil & Gas Lease on the above described lands. Please call me at the above number or send me a letter and I will prepare a draft and lease and send it to you.

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John W. Qualls

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Afe Estimate Summary  
CHI OPERATING, INC  
Report Date: 10/29/2004

Afe Id: 1 OTIS 33 #2  
Property Id: 200201-15 OTIS 33 #2  
Location: SEC. 33: T-22-S, R-27-E  
Operator: CHI OPERATING INC.

Field:  
St/County: NM/EDDY

Sub-Category Estimate Cost

=====

\*\*\* Owner Approval \*\*\*

Owner ID: 0053595 Owner Name: LEE ROY LUJAN

	AFE Estimate	-----Your Share-----	
		%	\$
Completion	276,800.00	0.00312500	865.00
	-----		-----
	276,800.00		865.00

Approved By: \_\_\_\_\_ Date: \_\_\_\_\_

Tax ID:

LEE ROY LUJAN  
1421 SMEDLEY RD.  
CARLSBAD NM 88220