


MILLER STRATVERT
PROFESSIONAL ASSOCIATION

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Alice T. Lorenz
Stephen M. Williams
Stephan M. Vidmar
Seth V. Bingham
Timothy R. Briggs
Rudolph Lucero
Deborah A. Solove
Gary L. Gordon
Lawrence R. White
Virginia Anderman
Marte D. Lightstone
J. Scott Hall*
Thomas R. Mack

Thomas M. Domme
Ruth O. Pregonzer
Jeffrey E. Jones
James J. Widland
Bradley D. Tepper**
Robin A. Goble
James R. Wood
Dana M. Kyle
Kirk R. Allen
Ruth Fuess
H. Brook Laskey
Paula G. Maynes
Michael C. Ross
Gary Risley

M. Dylan O'Reilly
Jennifer D. Hall
Todd A. Schwarz
Nell Graham Sale
Scott P. Hatcher
Leonard D. Sanchez
Kelsey D. Green
Marcy Baysinger
Caroline Blankenship
Matthew S. Rappaport
Karen E. Wootton
Somer K. Chyz
Michael G. Duran
Roxanna M. Chacon

Joseph L. Romero
Kelly A. Stone

Counsel

James B. Collins
Terri S. Beach
Robert D. Taichert
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Of Counsel

William K. Stratvert
Sharon P. Gross

Reply to Santa Fe

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* New Mexico Board of Specialization Recognized Specialist in Natural Resources - Oil & Gas Law
** New Mexico Board of Specialization Recognized Specialist in Real Estate Law

April 11, 2005

HAND-DELIVERED

Mark Fesmire, Director
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: New Mexico Oil Conservation Case No. 13487; Application of Preston
Exploration, L.L.C. for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Fesmire:

Enclosed is an original and two copies of the Application of Preston Exploration, L.L.C. in the above referenced matter. This Application is being filed pursuant to the provisions of Rule 1207(A).(1)(b). On behalf of the Applicant, we request this matter be set for hearing on the May 5, 2005 Division Examiner hearing docket. Also enclosed on disk and in hard copy is a proposed advertisement for the case.

Thank you for your assistance.

Very truly yours,

MILLER STRATVERT P.A.



J. Scott Hall

JSH/glb
Enclosures

2005 APR 11 PM 3 19

LAW OFFICES

ALBUQUERQUE
(505) 842-1950

FARMINGTON
(505) 326-4521

LAS CRUCES
(505) 523-2481

SANTA FE
(505) 989-9614

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF PRESTON
EXPLORATION, L.L.C. FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO

CASE NO. 13487

2005 APR 11 2PM 3 19

APPLICATION

PRESTON EXPLORATION, L.L.C., by its undersigned attorneys, Miller, Stratvert P.A., (J. Scott Hall) hereby makes application pursuant to NMSA 1978 Section 70-2-17 (1995) for an order pooling all mineral interests in all formations from the surface to the deeper of the base of the Morrow formation (Cemetery Morrow Gas Pool) or 9,772 feet subsurface which are spaced on 320-acres underlying the SW4 SW4 of Section 2, Township 20 South, Range 25 East, NMPM, Eddy County, New Mexico. The interests pooled will be dedicated to a standard 320-acre spacing and proration unit or units comprised of the S/2 of said Section 2. Applicant would show the Division:

1. This Application is submitted pursuant to the provisions of *19.15.14.1207 A.(1)(b) NMAC*.

2. Applicant owns certain working interests in and under the S/2 of Section 2, and has the right to drill thereon.

3. Applicant proposes to dedicate the above-referenced pooled units to its Cemetery "2" No. 2 Well to be drilled at a standard gas well location 660' from the South line and 1750' from the East line in unit "O" of said Section 2 to a depth sufficient to test the Morrow formations underlying the S/2 of Section 2.

4. Applicant has been unable to obtain leases or voluntary agreement for pooling or farmout from certain other interest owners in the above-referenced formations

underlying the SW/SW of said Section 2. Specifically, Applicant seeks an order pooling the operating rights under Federal oil and gas lease NMNM 0553777 from the surface to the deeper of the base of the Morrow formation or 9,772 feet subsurface which are owned by Santa Fe Exploration Company. The interests to be pooled comprise approximately 12 ½% of the working interest in the 320-acre unit.

5. After making diligent effort, Applicant has been unable to locate Santa Fe Exploration Company or its owners and it appears that the company no longer exists. For this reason, no opposition to this Application is expected.

6. A map outlining the spacing unit and the acreage to be pooled is attached as Exhibit A.

7. Copies of the Division's approved C-101 and C-102 forms showing the location of the proposed well, along with survey, vicinity and topography maps is attached as Exhibit B.

8. The last known address of the interest owner to be pooled is:

Santa Fe Exploration Company
201 W. Third Street
Roswell, New Mexico 88201

9. An attestation of the Applicant's Land Manager of the diligent efforts to locate the interest owner to be pooled is attached as Exhibit C.

10. Copies of correspondence also evidencing the Applicant's efforts to located Santa Fe Exploration Company and obtain its voluntary participation in the well are attached as Exhibit "D".

11. Applicant proposes overhead charges of \$4,100.00 per month while drilling and \$410.00 per month while operating the well. Such overhead charges are in

line with charges for wells drilled to similar depth in southeast New Mexico according to the Ernst & Young industry survey and based on the Applicant's experience.

12. A copy of the AFE for the proposed well is attached as Exhibit "E".

13. In order to permit the Applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interests should be pooled and Applicant should be designated operator of the well.

14. The pooling of interests will afford the Applicant the opportunity to produce its just and equitable share of hydrocarbons underlying the spacing units, will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on May 5, 2005 and that after notice and hearing as required by law, the Division enter its Order pooling the lands, including provisions for Applicant to recover its costs of drilling, equipping and completing the well, and the allocation of the cost thereof, its costs of supervision while drilling and after completion, including overhead charges and providing for adjustments to such rates in accordance with accepted COPAS accounting procedures, and imposing a 200% risk factor for the risk assumed by the Applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper.

MILLER STRATVERT P.A.

By: _____



J. Scott Hall
Attorneys for Preston Exploration, L.L.C.
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

OP

Submit to appropriate District Office
 AMENDED REPORT

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

RECEIVED

DEC - 9 2004

QUARTERIA

JAN 4 2005

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address Preston Exploration, LLC P. O. Box 7520 The Woodlands, Texas 77387-7520		² OGRID Number 212226
³ Property Code 34478		³ API Number 30-015-33763
⁴ Property Name Cemetery "2"		⁶ Well No. 2
⁹ Proposed Pool 1 Cemetery, Morrow	74640	¹⁰ Proposed Pool 2

7 Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/Westline	County
O	2	20S	25E		660	South	1,750	East	Eddy

8 Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/Westline	County

Additional Well Information

¹¹ Work Type Code N	¹² Well Type Code G	¹³ Cable/Rotary R	¹⁴ Lease Type Code P	¹⁵ Ground Level Elevation 3,385
¹⁶ Multiple No	¹⁷ Proposed Depth 10,000'	¹⁸ Formation Morrow	¹⁹ Contractor Not Yet Selected	²⁰ Spud Date 01/01/2005
Depth to Groundwater 95'		Distance from nearest fresh water well 1,900'		Distance from nearest surface water 3 1/2 miles
Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 mil thick Clay <input type="checkbox"/> Closed-Loop System <input type="checkbox"/>				
Pit Volume: 5,000 bbls Drilling Method: Fresh Water <input type="checkbox"/> Brine <input checked="" type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>				

21 Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17 1/2"	13 3/8"	48	350	250	Surface
12 1/4"	9 5/8"	36	1,400	500	Surface
8 3/4"	5 1/2"	17	10,000'	400	5,000'

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Drill well to base of Morrow formation, log same, if logs indicate productive intervals, run casing and attempt completion.

BOP Information:

- A.) Hydril Style Annular Preventor; 13 5/8", 3,000# WP rating. (see attachment)
- B.) Double Ram BOP; 13 5/8", 3000# WP rating. (see attachment)
- C.) Choke Manifold; 4" X 3,000# WP rating. (see attachment)
- D.) Five station accumulator closing unit with remote control.

Indian Fire and Safety H2S Contingency plan. (see attachment)

Newpark Drilling Fluids, LLC mud program summary. (see attachment)

CEMENT TO COVER ALL OIL, GAS AND WATER BEARING ZONES

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCDC guidelines , a general permit , or an (attached) alternative OCD-approved plan .

OIL CONSERVATION DIVISION

Approved by: **TIM W. GUM**
Title: **DISTRICT II SUPERVISOR**

Printed name: **Bill Pierce**

Title: **Consulting Engineer**

E-mail Address: **bill@dpps.us**

Date: **12/01/2004**

Phone: **(432)570-6009**



DEC 16 2004 Expiration Date: **DEC 16 2005**

NOTIFY OCD ON SPUD & TIME TO WITNESS CEMENTING OF SURFACE & INTERMEDIATE CASING

State of New Mexico

Energy, Minerals and Natural Resources Department

DISTRICT I

1625 N. FRENCH DR., ROBBS, NM 86240

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 86210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Form C-
Revised JUNE 10, 2004
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name CEMETARY 2	Well Number 2
OGRID No.	Operator Name PRESTON EXPLORATION	Elevation 3385'

Surface Location

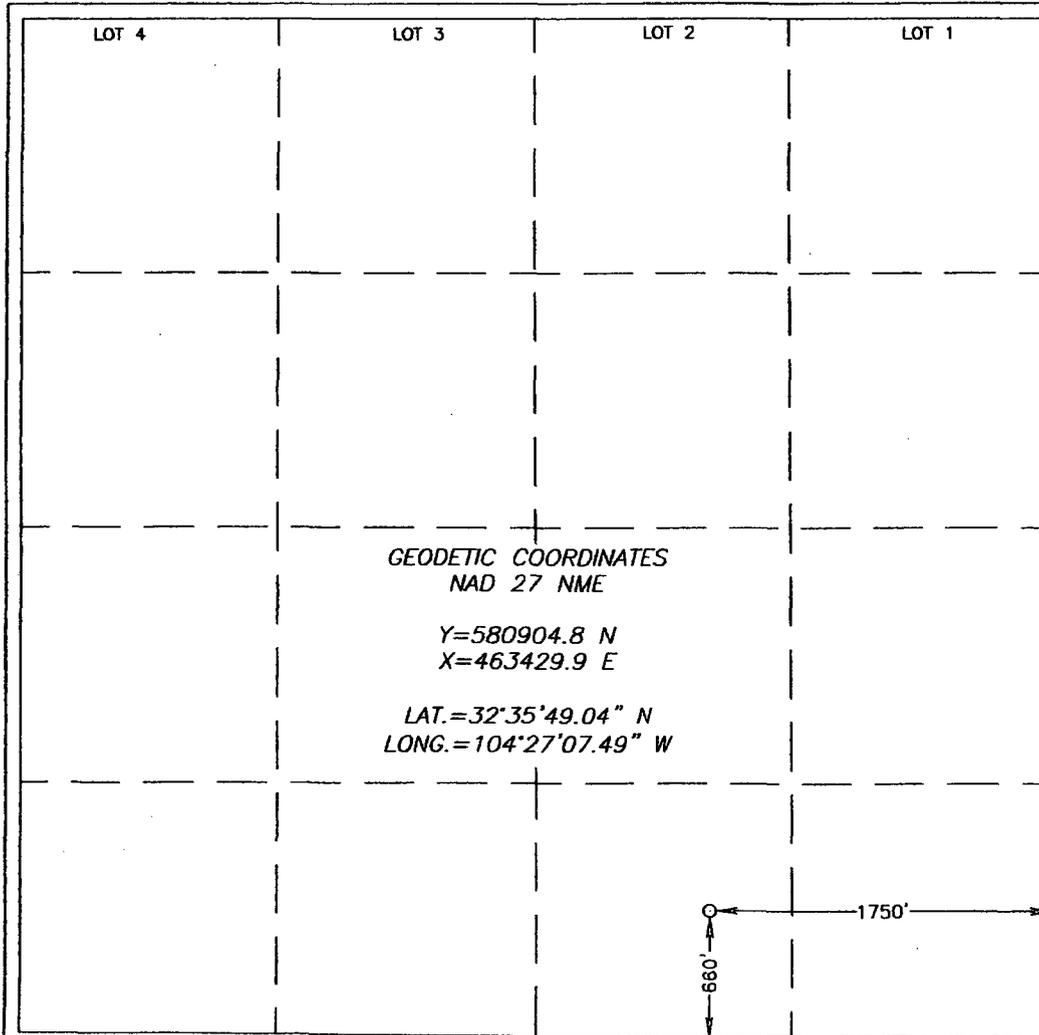
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
0	2	20-S	25-E		660	SOUTH	1750	EAST	EDDO

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature

Printed Name

Title

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

OCTOBER 2, 2004

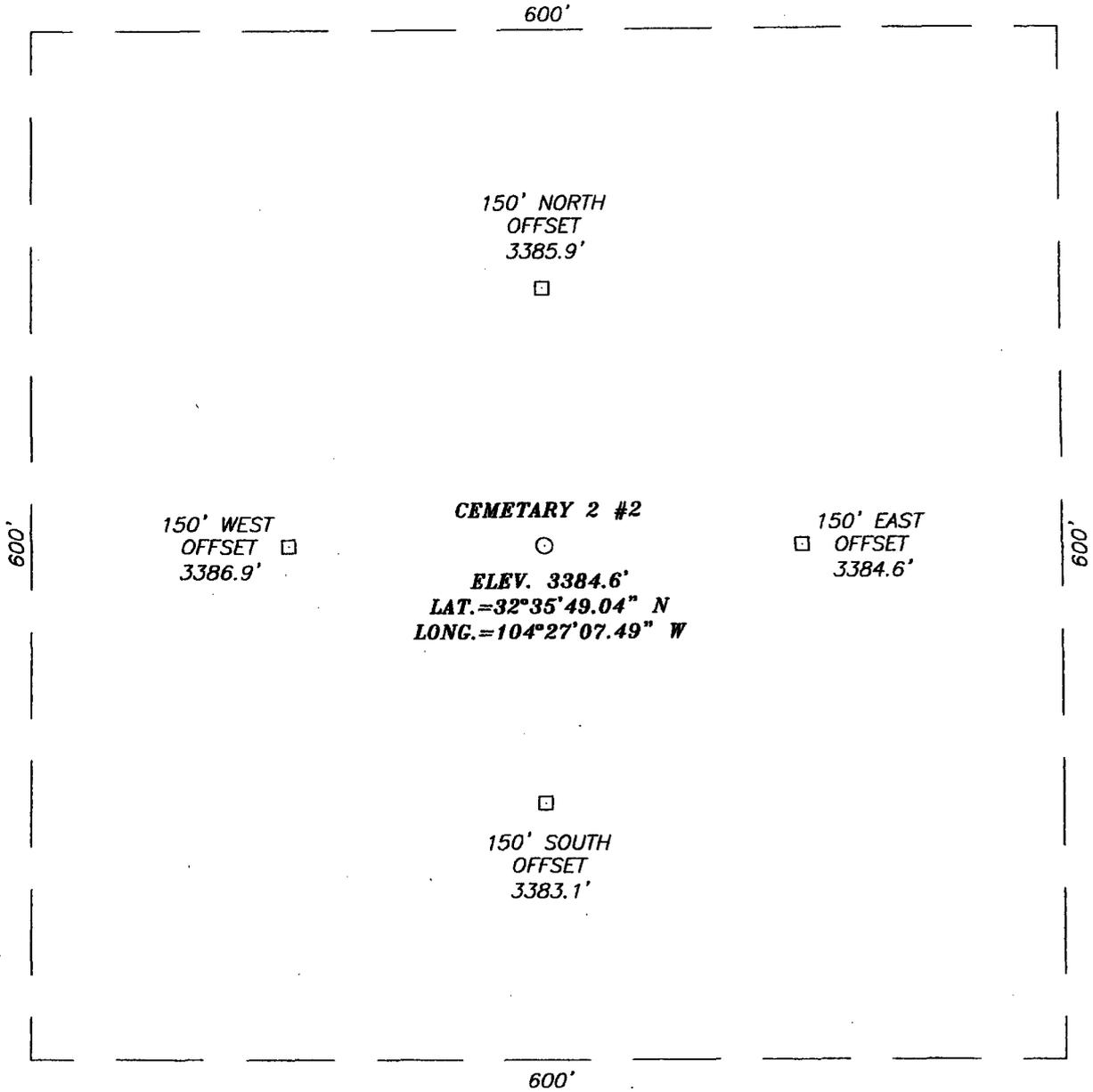
Date Surveyed

LA

Signature & Seal of Professional Surveyor

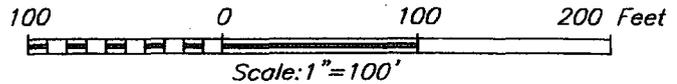
Gary Edson
04.11/1377
Certificate No. GARY EDSON 128-

SECTION 2, TOWNSHIP 20 SOUTH, RANGE 25 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

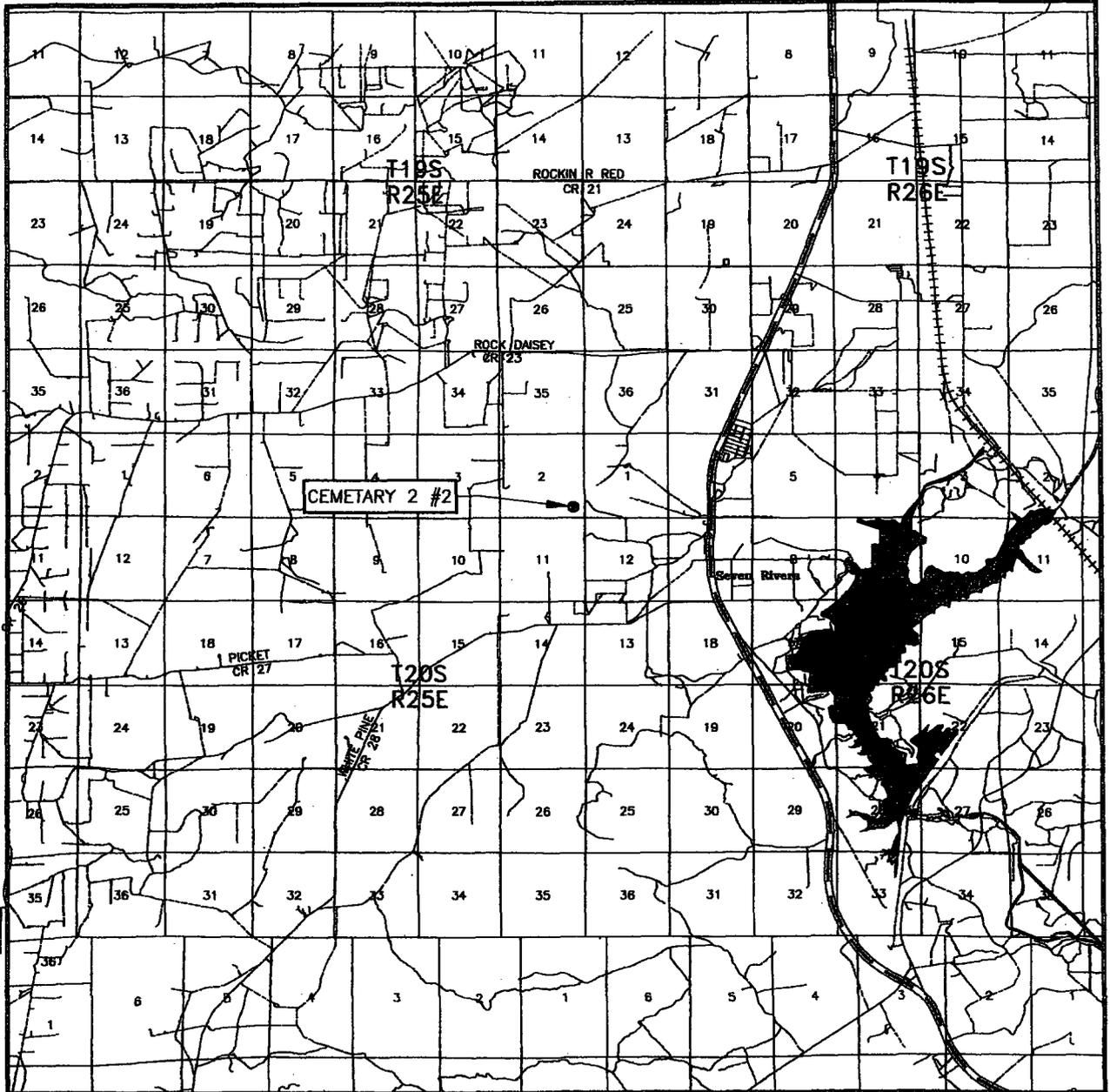
FROM THE INTERSECTION OF ST. HWY #285 AND CO. RD. #23 (ROCK DAISY) GO WEST ON CO. RD. #23 APPROX. 3.0 MILES. TURN LEFT & GO SOUTH 1.6 MILES. TURN LEFT & GO EAST APPROX. 0.6 MILES ON LEASE ROAD. THIS LOCATION IS 2200'± SOUTH.



PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

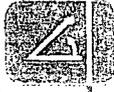
PRESTON EXPLORATION			
CEMETARY 2 #2 WELL LOCATED 660 FEET FROM THE SOUTH LINE AND 1750 FEET FROM THE EAST LINE OF SECTION 2, TOWNSHIP 20 SOUTH, RANGE 25 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO.			
Survey Date: 10/26/04	Sheet 1 of 1 Sheets		
W.O. Number: 04.11.1377	Dr By: LA	Rev 1:N/A	
Date: 10/27/04	Disk: CD#3	04111377	Scale: 1"=100'

VICINITY MAP



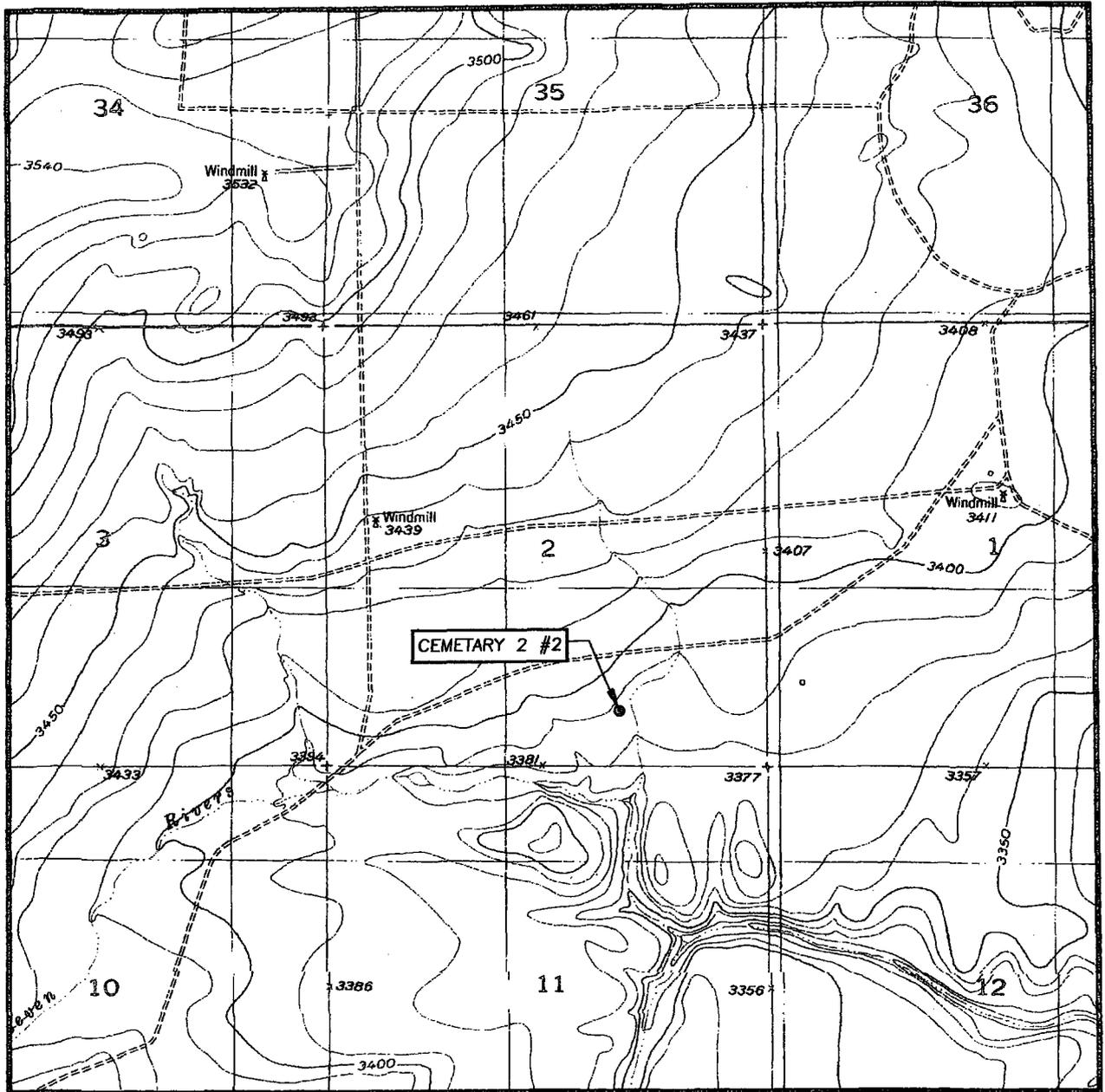
SCALE: 1" = 2 MILES

SEC. 2 TWP. 20-S RGE. 25-E
 SURVEY N.M.P.M.
 COUNTY EDDY
 DESCRIPTION 660' FSL & 1750' FEL
 ELEVATION 3385'
 OPERATOR PRESTON EXPLORATION
 LEASE CEMETARY 2



PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:
SEVEN RIVERS, N.M. - 10'

SEC. 2 TWP. 20-S RGE. 25-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 660' FSL & 1750' FEL

ELEVATION 3385'

OPERATOR PRESTON EXPLORATION

LEASE CEMETARY 2

U.S.G.S. TOPOGRAPHIC MAP
SEVEN RIVERS, N.M.

PROVIDING SURVEYING SERVICES
SINCE 1946
JOHN WEST SURVEYING COMPANY
412 N. DAL PASO
HOBBBS, N.M. 88240
(505) 393-3117

plug the Exxon State Com #1 well as 201 W. 3rd, Roswell, New Mexico 88201. Duke Roush with Nearburg made a trip to Roswell and found no Santa Fe at that address and none listed in Roswell for Santa Fe.

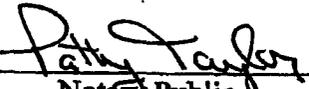
6. Lastly, we performed several internet searches on Google, Yahoo and Anywho.com for Santa Fe without success along with the Secretary of State of New Mexico. Additionally, we searched the names of anyone who signed on behalf of Santa Fe on records filed with the OCD and found no listing.
7. I have reviewed the Application and the materials submitted in connection therewith. The information set forth therein is correct and complete to the best of my knowledge and belief.

FURTHER AFFIANT SAYETH NOT.



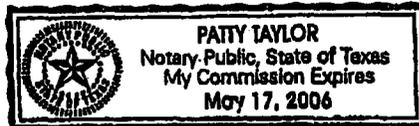
JESSE BLUE

Subscribed, sworn to and acknowledged before me on this 11th day of April, 2005, by Jesse Blue.



Notary Public

My commission expires:
5/17/06



Preston Exploration, L.L.C.

January 17, 2005

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Nearburg Production Company, LLC
3300 N. "A", Bldg. 2, Suite 120
Midland, Texas 79705

Attn: Bob Shelton

Re: Cemetary "2" #2 Well
660' FSL, 1750' FEL of Section 2, T20S, R25E
Spacing Unit is S/2 of Section 2, T20S, R25E
Eddy County, New Mexico

Gentlemen:

Preston Exploration, LLC ("Preston") hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation with an anticipated total depth being approximately 9,600'. Furthermore, Preston shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The proposed spacing or proration unit will be the S/2 of Section 2, T20S, R25E, Eddy County, New Mexico.

This well will be located approximately 660' FSL & 1750' FEL of Section 2, T20S, R25E, Eddy County, New Mexico. Preston's AFE for the drilling and completion of this well is enclosed for your review. Should you desire to participate to the full extent of your interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

Upon receipt of your executed AFE, we will forward for your review and execution Preston's Joint Operating Agreement covering this proposed well.

In the event you should elect to not participate in the drilling of this test well, Preston is willing to negotiate an equitable agreement covering your interest in order to cause this well to be drilled.



We anticipate drilling the captioned well in the very near future. We therefore, request that you please review this matter as soon as possible and advised as to your position regarding this proposal within thirty (30) days from your receipt of this letter.

We would be glad to further discuss this matter with you, so we invite you to contact us with any questions or comments you might have. Thank you for your cooperation.

Yours very truly,

A handwritten signature in black ink that reads "Bo Blue". The signature is written in a cursive style with a large, stylized initial "B".

Bo Blue
New Ventures Land Manager

Enclosure

PRESTON EXPLORATION, LLC

AUTHORIZATION FOR EXPENDITURE

Lease and Well No. Cemetery "2" #2		Prospect Cemetery East	AFE no. 300501
<input type="checkbox"/> Exploratory Well	<input type="checkbox"/> Recompletion	<input type="checkbox"/> Injection	<input checked="" type="checkbox"/> Original
<input checked="" type="checkbox"/> Development Well	<input type="checkbox"/> Workover	<input type="checkbox"/> SWD	<input type="checkbox"/> Supplement
County/Parish, State Eddy Co., New Mexico	Survey/Township S2/Sec. 2, T20S, R25E	Unit Description/Measured Location 660' FSL & 1,750' FEL	Projected TD 9,600
Description of Work Drill and evaluate Morrow formation.			

INTANGIBLE COSTS

Description	Drilling	Completion	
Abstracts / Legal Fees	101	201	
Surveys / Permits / Environmental	102	1,500	
Right - of - Way	103	5,000	
Location / Restoration	104	45,000	204 1,500
Mob & Demob	105	40,000	205
Transportation / Hauling / Barges	106		206 3,000
Drilling / Completion Rig - Turnkey/Footage	20 Days @ \$ 2,500.00 per Day	107	207 50,000
Drilling / Completion Rig - Day Rate	32 Days @ \$ 11,500.00 per Day	108	208 368,000
Cementing - Materials / Services	111	28,000	211 19,000
Drilling Mud / Completion Fluids	112	44,000	212 6,000
Water	113	25,000	213 3,000
Fuel	114	32,000	214
Open Hole - Logging / Coring	115	16,000	215
Engineering / Supervision	116	26,250	216 16,000
Geological / Petrophysical Services	117		
Casing Services	118	6,800	218 5,500
Supplies	119		219
Drilling / Completion Overhead	120	7,000	220 7,000
Equipment Rentals	123	35,000	223 15,000
Surface Damages	124	5,000	
Wellhead Equipment	133	13,500	228 8,500
Slickline / Swabbing			229
Cased Hole - Logging / Perforating			229 14,000
Stimulation - Materials / Services			230 73,500
Insurance	145	30,000	245 5,000
Coiled Tubing - Materials / Services			250
Chemicals - Other			254
Gravel Pack - Materials / Services			255
Bits - Drilling / Completion	156	58,000	256 500
Treating			258
Testing / Analysis	160	3,500	260 1,000
Communications	161		162
Labor	162	3,500	262 20,000
P & A Expense	197	15,000	
Taxes	199	42,750	299 13,350
Miscellaneous	199	10,000	299 2,500
	199		299
	199		299
Contingencies	199		299
Total Intangibles	860,800	264,350	

TANGIBLE COSTS

Conductor Pipe	20" Set @ 40'	110	4,500	
Surface Casing	13 3/8" Set @ 350'	\$ 31.00 P/FI	121	10,850
Intermediate Casing / Liner	8 5/8" Set @ 3000'	\$ 27.00 P/FI	122	81,000
Production Casing / Liner		P/FI	122	
Tie-Back	5 1/2" Set @ 9,600'	\$ 11.00 P/FI		226 105,600
Tubing		P/FI		226
Downhole Equipment	2 7/8" @ 9,300	\$ 4.80 P/FI	227	44,640
Artificial Lift Equipment			231	7,500
Tree & Other Production Equipment			232	3,000
Tanks			233	18,000
Pipe, Fittings, Valves, etc.			234	5,000
Separators, Treaters, Heaters, etc.			235	25,000
Taxes				236 9,850
Miscellaneous				
Total Tangibles		99,100	218,590	

Dry Hole Cost	959,900
Completed Well Cost	1,427,840

APPROVALS

Company	Signature	Title	Date
---------	-----------	-------	------

IT IS RECOGNIZED THAT THE AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATION SPECIFIED, WHETHER MORE OR LESS THAN THE AMOUNTS HEREIN SET OUT.

Preston Exploration, L.L.C.

February 10, 2005

Nearburg Production Company, LLC
3300 N. "A", Bldg. 2, Suite 120
Midland, Texas 79705

Attn: Bob Shelton

Re: Cemetary "2" #2 Well
660' FSL, 1750' FEL of Section 2, T20S, R25E
Spacing Unit is S/2 of Section 2, T20S, R25E
Eddy County, New Mexico

Gentlemen:

Enclosed please find title information that we have concerning Nearburg's ownership in the referenced spacing unit. We are unsure of the current relationship you have with Santa Fe Exploration Company (now Devon) as the Exxon State Com #1 well only made 72,000 MCF and was plugged in 1998.

Please advise us as to the status of Nearburg and Devon's ownership in the SW/4 SW/4 of Section 2, T20S, R25E.

Yours very truly,



Bo Blue
New Ventures Land Manager

Enclosure

February 14, 2005

Nearburg Production Company, LLC
3300 N. "A", Bldg. 2, Suite 120
Midland, Texas 79705

Attn: Bob Shelton

Re: Cemetary "2" #2 Well
660' FSL, 1750' FEL of Section 2, T20S, R25E
Spacing Unit is S/2 of Section 2, T20S, R25E
Eddy County, New Mexico

Gentlemen:

Enclosed please find a copy of the Original Title Opinion covering the referenced unit area. For your information, Preston Exploration, LLC is the operator under an existing agreement with the rest of the partners shown in the opinion. WJP Exploration, LLC is one of our entities we operate for.

Yours very truly,

Bo Blue
New Ventures Land Manager

Enclosure

Preston Exploration, L.L.C.

February 16, 2005

Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Attn: Ken Gray

Re: Cemetary "2" #2 Well
660' FSL, 1750' FEL of Section 2, T20S, R25E
Spacing Unit is S/2 of Section 2, T20S, R25E
Eddy County, New Mexico

Dear Ken:

After a lengthy conversation with Duke Roush at Nearburg, I decided to send you the enclosed offer to participate letter for our proposed Morrow test referenced above. Apparently, title to the SW/4 SW/4 of Section 2 is subject to a farmout agreement involving Sante Fe (now Devon) and Nearburg which cannot be located. I have also enclosed a copy of our original title opinion which may help you figure the ownership situation.

We'd like to get this well going as soon as possible, so at the very least, if you and Duke can't find the necessary documents to determine who owns what interest, I'd like either a stipulation of interest from both parties or an agreement to either participate or go non-consent under an operating agreement whereby Preston would suspend revenues until ownership is determined so we can proceed with drilling a well.

Please call me if you have any questions.

Yours very truly,



Bo Blue
New Ventures Land Manager

Enclosures

Preston Exploration, L.L.C.

February 16, 2005

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Attn: Ken Gray

Re: Cemetary "2" #2 Well
660' FSL, 1750' FEL of Section 2, T20S, R25E
Spacing Unit is S/2 of Section 2, T20S, R25E
Eddy County, New Mexico

Dear Ken:

Preston Exploration, LLC ("Preston") hereby proposes the drilling of a well to a depth sufficient to adequately test the Morrow formation with an anticipated total depth being approximately 9,600'. Furthermore, Preston shall evaluate to its satisfaction, all other formations encountered at lesser depths in the drilling of said well. The proposed spacing or proration unit will be the S/2 of Section 2, T20S, R25E, Eddy County, New Mexico.

This well will be located approximately 660' FSL & 1750' FEL of Section 2, T20S, R25E, Eddy County, New Mexico. Preston's AFE for the drilling and completion of this well is enclosed for your review. Should you desire to participate to the full extent of your interest in the drilling of this proposed well, please return an executed copy of the AFE to the undersigned at your earliest convenience.

Upon receipt of your executed AFE, we will forward for your review and execution Preston's Joint Operating Agreement covering this proposed well.

In the event you should elect to not participate in the drilling of this test well, Preston is willing to negotiate an equitable agreement covering your interest in order to cause this well to be drilled.

We anticipate drilling the captioned well in the very near future. We therefore, request that you please review this matter as soon as possible and advised as to your position regarding this proposal within thirty (30) days from your receipt of this letter.

We would be glad to further discuss this matter with you, so we invite you to contact us with any questions or comments you might have. Thank you for your cooperation.

Yours very truly,

A handwritten signature in black ink that reads "Bo Blue". The signature is written in a cursive, flowing style.

Bo Blue
New Ventures Land Manager

Enclosure

Bo Blue

From: Duke Roush [droush@nearburg.com]
Sent: Monday, March 28, 2005 11:12 AM
To: Bo Blue
Subject: RE: Cemetary 2 #2 Well

No but I will do some calling around today

-----Original Message-----

From: Bo Blue [mailto:bblue@prestonexpl.com]
Sent: Monday, March 28, 2005 10:42 AM
To: Duke Roush
Subject: Cemetary 2 #2 Well

I went through all the filings listed on OCD website concerning the Exxon State Com #1 well which was operated by Santa Fe Energy Company. At various stages in the life of this well, several "Agents" have signed on behalf of Santa Fe. Jackie Midkiff and Lorraine R. Schmitt are most prominent, then Richard Hubbertt, Trustee and Robert B. Wilson with a law firm in Lubbock and finally Richard Yellowland shows up in the record. Any of these names mean anything?

Bo Blue
Preston Exploration, LLC
New Ventures Land Manager
Office: 281-367-8697
Fax: 281-364-4919

RECEIVED FEB 18 1998

Submit 3 Copies to Appropriate District Office

State of New Mexico Energy, Minerals and Natural Resources Department

Form C-103 Revised 1-1-89

DISTRICT I P.O. Box 1980, Hobbs, NM 88240

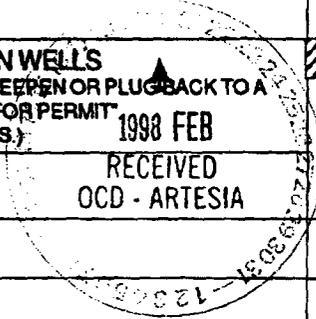
OIL CONSERVATION DIVISION 310 Old Santa Fe Trail, Room 206 Santa Fe, New Mexico 87503

DISTRICT II P.O. Drawer DD, Artesia, NM 88210

DISTRICT III 1000 Rio Brazos Rd., Aztec, NM 87410

WELL API NO. 30-015-24091
5. Indicate Type of Lease STATE [X] FEE []
6. State Oil & Gas Lease No. V-391

SUNDRY NOTICES AND REPORTS ON WELLS (DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS.)
1. Type of Well: OIL WELL [] GAS WELL [X] OTHER []
2. Name of Operator: Santa Fe Exploration Company
3. Address of Operator: 201 W. 3rd, Rosewell, NM 88201
4. Well Location: Unit Letter L, 1980 Feet From The South Line and 660 Feet From The West Line. Section 2, Township 20 South, Range 25 East, NMPM, Eddy County.
10. Elevation (Show whether DF, RKB, RT, GR, etc.): 3,422 GR



11. Check Appropriate Box to Indicate Nature of Notice, Report, or Other Data
NOTICE OF INTENTION TO: PERFORM REMEDIAL WORK [] PLUG AND ABANDON [] TEMPORARILY ABANDON [] CHANGE PLANS [] PULL OR ALTER CASING [] OTHER: []
SUBSEQUENT REPORT OF: REMEDIAL WORK [] ALTERING CASING [] COMMENCE DRILLING OPNS. [] PLUG AND ABANDONMENT [X] CASING TEST AND CEMENT JOB [] OTHER: []

- 12. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work) SEE RULE 1103.
2-05-98 1) Cut 2 3/8" tbg. @ 9238 Got Approval from OCD to set CIBP @ 9238
2-05-98 2) Set 4 1/2" CIBP @ 9238
2-05-98 3) Circ. hole w/10# brine w/25# salt get per bbl spot 25 sx on top CIBP
2-06-98 4) Cut 4 1/2" csg @ 8292
2-09-98 5) Spot 23 sx plug @ 8340 2-10-98 TAG TOC @ 8131
1-10-98 6) Circ. hole w/10# brine w/25# salt get per bbl
1-10-98 7) Spot 35sx plug 6690-6590
2-20-98 8) Spot 35 sx 3700-3600
2-10-98 9) Spot 45sx plug 1400 WOC TAG TOC @ 1285
2-11-98 10) Spot 35 sx plug 400-300
2-11-98 11) Spot 10 sx plug 30-surf
2-11-98 12) Cut off WH & install dry hole marker

Post FD-2 5-3-98 PCH

I hereby certify that the information above is true and complete to the best of my knowledge and belief.
SIGNATURE: Billy Carruth TITLE: Supervisor DATE: 2/13/98
TYPE OR PRINT NAME: BILLY CARRUTH TELEPHONE NO.: 915/523-5786

(This space for State Use)
APPROVED BY: TITLE: DATE:
CONDITIONS OF APPROVAL, IF ANY:

PRESTON EXPLORATION, LLC

AUTHORIZATION FOR EXPENDITURE

Lease and Well No. Cemetery "2" #2		Prospect Cemetery East	AFE no. 300501
<input type="checkbox"/> Exploratory Well <input checked="" type="checkbox"/> Development Well	<input type="checkbox"/> Recompletion <input type="checkbox"/> Workover	<input type="checkbox"/> Injection <input type="checkbox"/> SWD	<input checked="" type="checkbox"/> Original <input type="checkbox"/> Supplement
County/Parish, State Eddy Co., New Mexico	Survey/Township S2/Sec. 2, T20S, R25E	Unit Description/Measured Location 660' FSL & 1,750' FEL	Projected TD 9,600
Description of Work Drill and evaluate Morrow formation.			

INTANGIBLE COSTS

Description	Drilling	Completion
Abstracts / Legal Fees	101	201
Surveys / Permits / Environmental	102	
Right - of - Way	103	1,500
Location / Restoration	104	5,000
Mob & Demob	105	45,000
Transportation / Hauling / Barges	106	40,000
Drilling / Completion Rig - Turnkey/Footage	107	205
Drilling / Completion Rig - Day Rate	108	206
Cementing - Materials / Services	111	207
Drilling Mud / Completion Fluids	112	3,000
Water	113	50,000
Fuel	114	28,000
Open Hole - Logging / Coring	115	211
Engineering / Supervision	116	19,000
Geological / Petrophysical Services	117	44,000
Casing Services	118	212
Supplies	119	213
Drilling / Completion Overhead	120	3,000
Equipment Rentals	123	214
Surface Damages	124	215
Wellhead Equipment	133	216
Slickline / Swabbing		218
Cased Hole - Logging / Perforating		219
Stimulation - Materials / Services		220
Insurance	145	7,000
Coiled Tubing - Materials / Services		223
Chemicals - Other		226
Gravel Pack - Materials / Services		228
Bits - Drilling / Completion	156	230
Treating		233
Testing / Analysis	160	234
Communications	161	235
Labor	162	236
P & A Expense	197	245
Taxes	199	250
Miscellaneous	199	254
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Case 13487: Application of Preston Exploration, L.L.C. For Compulsory Pooling, Eddy County, New Mexico. Applicant seeks an order pooling the owner of operating rights under federal oil and gas lease No. NMNM 0553777 covering the SW/4 SW/4 of Section 2, Township 20 South, Range 25 East, in all formations from the surface to the deeper of the base of the Morrow formation or 9,772 feet subsurface to form a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently includes but is not necessarily limited to the Cemetary Morrow Gas Pool. This spacing and proration unit is to be dedicated to the Cemetary "2" No. 2 Well to be drilled to the Morrow formation at a standard gas well location 660' from the South line and 1, 750' from the East line of Section 2. This Application is brought pursuant to the provisions of 19.15.14.1207 A.(1)(b) NMAC. Applicant has been unable to locate Santa Fe Exploration Company, the owner of the operating rights referenced above. The last known address for the owner of the interests to be pooled is:

Santa Fe Exploration Company
201 W. Third Street
Roswell, New Mexico 88201

Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, the actual operating costs and charges for supervision, designation of applicant as operator and a charge for risk involved in drilling the well. The lands that are the subject of the application are located approximately two miles west of Seven Rivers, New Mexico.

2005 APR 11 PM 3 19