

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. _____

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 SW 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

2005 APR 17 PM 3 18

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

<p>Antwell et al Nearburg P22</p> <p>S.P. Johnson, III, et al S.P. Yates</p>	<p>Nearburg 3-26-2004 7-14-2001</p> <p>Nearburg 7-24-2001 3-26-2001</p> <p>Yates Pet. et al 10-19-95 (Mo) S.P. Yates</p>	<p>Yates Pet. et al 3-27-2003 D.E. Fanning et al</p> <p>Yates Pet. et al 3-27-2003</p>	<p>Yates Pet. et al 3-27-2003</p> <p>W.J. Gushwa John Fanning Yates Pet. et al 3-27-2003</p>
<p>Nearburg Expl P-21 E12SW</p> <p>Nearburg P475</p> <p>Minnie Robert Clifton Rober'</p> <p>Nearburg Expl. P248</p> <p>Nearburg P150 71A8225</p> <p>"So Boyd" Lee Ray Walker Anna Burnworth</p>	<p>Nearburg Prod. 87.92AC "Parino" Carl Ross et al</p> <p>Nearburg Prod. 3-15-86</p> <p>Carl Ross et al</p> <p>W.O. Scott, et al</p>	<p>Nearburg Expl 12-11-99 N/2</p> <p>Nearburg Expl 11-12-2001 9-1-2000 5m Trs.</p> <p>Nearburg 11-6-99 11-6-99</p>	<p>Yates Pet. et al 7-1-2002 V-5110 8406</p> <p>Yates Pet. et al 7-1-2002 V-5110 8406</p>
<p>Nearburg Expl. P234</p> <p>"South Boyd" C.E. Schrock et al</p> <p>Nearburg P25</p> <p>"So Boyd" State</p>	<p>Nearburg Expl VB-60 1.4 Mil.</p> <p>Nearburg Boyd-St.</p> <p>E.O. Moore, Jr. Noia Hornbeck</p>	<p>Nearburg 6-1-2006 96819</p> <p>Nearburg 9-1-2004 93463</p> <p>Nearburg 11-6-99 5m Trs.</p>	<p>Yates Pet. et al 10-1-99 VA-1282 22181</p> <p>Nearburg 10-1-2001 V-4951 18000</p> <p>Yates Pet. et al 10-1-99 VA-1282 22181</p>
<p>Amer. Nat'l. Pet. 3504364 A-040 12 Mil. Morris Disc. 28.4 Mil. C-1-74</p> <p>"Pan-Canadian" Pan Amer Werthm Penn. Disc. TD 10486</p>	<p>(Chevron) 0504364</p> <p>Chevron 12-1-78 8247</p> <p>Chevron 12-1-77 3806</p> <p>Nearburg Prod. Millgra-Gulf Fed. 2.6 Mil.</p>	<p>Yates Pet. et al 10-1-99 VA-1282 22181</p> <p>Nearburg 10-1-2001 V-4951 18000</p> <p>Yates Pet. et al 10-1-99 VA-1282 22181</p>	<p>Yates Pet. et al 9-30-2001 9-10-2001 11-1-2001</p> <p>Yates Pet. et al 10-1-2001 10-15-2001 924-2003</p> <p>Whitworth, et al</p>
<p>Chama Pet. J.M. Huber</p> <p>Nearburg Prod. J.M. Huber Pami-Fed. TD 9600 DIA 23-74</p> <p>Wayne Head 31200</p> <p>Wayne Head P76</p> <p>J. Lakewood-Fed</p>	<p>Nearburg Prod. J. Lebsack 91079</p> <p>West'n Lakewood P76</p> <p>Nearburg P76</p> <p>"Gulf-Fed." U.S.</p>	<p>Yates Pet. et al 10-1-99 VA-1282 22181</p> <p>Santa Fe Ener. 11-1-2001 V-4382 14167</p> <p>Gulf Shugart TD9756 DIA-23-73, state</p>	<p>Yates Pet. et al 12-22-2002</p> <p>Pitch Ener. E. Yates Dorethy Sanford</p> <p>Moutray Bros. Inc.</p>
<p>Nearburg Prod. 14758</p> <p>VEN RIVERS</p> <p>Nearburg Prod. "Huber-Fed" Kincaid-Watson Pan Amer. Fed. 18-16-52 U.S. DIA 10-10-56</p>	<p>DE Gonzales 5-1-2006 V-6208 17700</p> <p>Compton State</p> <p>E. McGon- agill</p> <p>Jane Johnston, et al San Deigo Trust & Savings E. McGonagill</p>	<p>Yates Pet. et al 8-10-2004</p> <p>Ralph Sugart Ernest McGonagill</p> <p>Jane Johnston, et al</p> <p>Ernest McGonagill</p> <p>Yates Pet. et al 8-17-2004</p> <p>Violet G. Shand</p>	<p>Yates Pet. et al 9-8-2004 8-31-2004 9-3-2003</p> <p>J. Young et al</p> <p>Yates Pet. et al 8-17-2004</p> <p>A G Mc- Gonagill</p> <p>Yates Pet. et al 3-1-2006 96198 3000 U.S.</p> <p>V deAutremont</p> <p>Leona Woodmansee</p>
<p>HBP Corp HBP 14758</p> <p>Nearburg Prod. HBC N/2</p> <p>U.S.</p> <p>"Anderson 10J" Joe Anderson, Est.</p>	<p>(Estoril, Prod., 54.6%) Nearburg Expl</p> <p>H Amoco Rios Siete (Morrow Disc) C-1-19-79 Glor. Disc. P16</p> <p>Ella Anderson, et al Joe Anderson, Est.</p>	<p>Yates Pet. et al 6-1-2006 95821 6000</p> <p>Yates Pet. et al 8-17-2004</p> <p>Violet G. Shand</p> <p>Yates Pet. et al 10-27-2004</p> <p>B.B. White</p>	<p>Yates Pet. et al 8-17-2004</p> <p>Yates Pet. et al 9-24-2003</p> <p>Huff et al</p> <p>Yates Pet. 12-1-93 78221 4006 U.S.</p> <p>Amoco Et al 8-25-86</p> <p>Caroline Cully, et al</p>
<p>Nearburg Prod. HBC S/2</p> <p>J. T. Price</p> <p>Nearburg Geneaco (Santa Fe) TD 4751</p> <p>C.M. Cole</p>	<p>Nearburg Expl. 4.3 Mil Geneaco" Mrs. F. Giovannani</p> <p>Nearburg 5-30 Fre Cale, G</p>	<p>Yates Pet. et al 2004</p> <p>Caroline Cully, et al</p>	<p>Yates Pet. et al 11-20-83</p> <p>Champion 11-20-83</p> <p>Chon 11-2</p>



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

Form C-101
May 27, 2004

RECEIVED

Submit to appropriate District Office

AMENDED REPORT

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

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

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

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

Work Type Code N	Well Type Code G	Cable/Rotary R	Lease Type Code P	Ground Level Elevation 3,385
Multiple No	Proposed Depth 10,000'	Formation Morrow	Contractor Not Yet Selected	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"/>		Pit Volume: 5,000 bbls		
Closed-Loop System <input type="checkbox"/>		Drilling Method: Fresh Water <input type="checkbox"/> Brine <input checked="" type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>		

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:

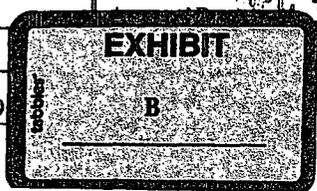
- A.) Hydril Style Annular Preventer; 13 5/8", 3,000# WP rating. (see attachment)
- B.) Double Ram BOP; 13 5/8", 3000# WP rating. (see attachment)
- C.) Choke Manifold; 4" X 3,000# WP rating. (see attachment)
- D.) Five station accumulator closing unit with remote control.

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 NMOCD guidelines <input checked="" type="checkbox"/> , a general permit <input type="checkbox"/> , or an (attached) alternative OCD-approved plan <input type="checkbox"/> .	OIL CONSERVATION DIVISION
	Approved by: TIM W. GUM DISTRICT II SUPERVISOR
Printed name: Bill Pierce	Title: DEC 16 2004 Expiration Date: DEC 16 2005
Title: Consulting Engineer	
E-mail Address: bill@dpps.us	
Date: 12/01/2004	Phone: (432)570-6009



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

State of New Mexico

Energy, Minerals and Natural Resources Department

DISTRICT I

1626 N. FRENCH DR., HOBBES, NM 88240

DISTRICT II

1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Artec, 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, 1
Submit to Appropriate District Of
State Lease - 4 Co
Fee Lease - 3 Co

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

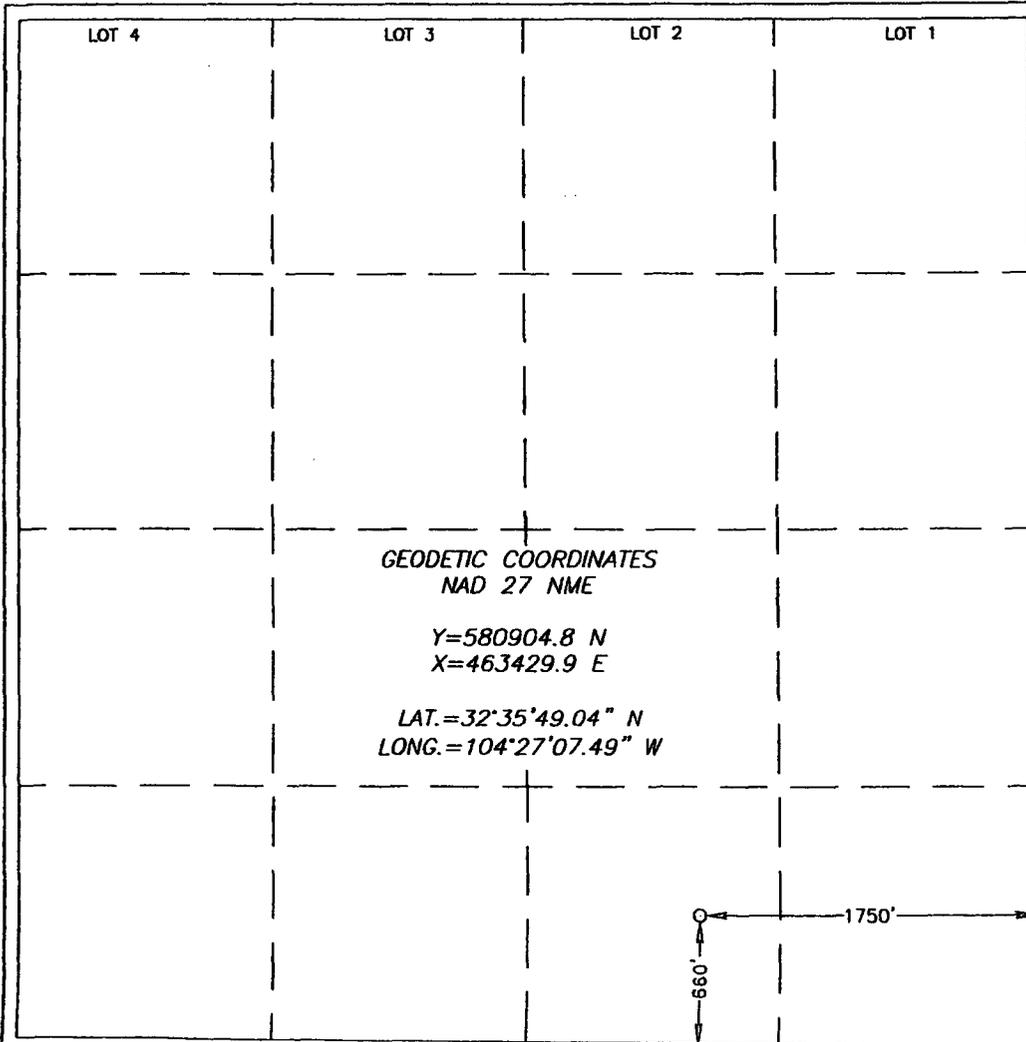
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
0	2	20-S	25-E		660	SOUTH	1750	EAST	EDD

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 the 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 as correct to the best of my belief.

OCTOBER 2, 2004

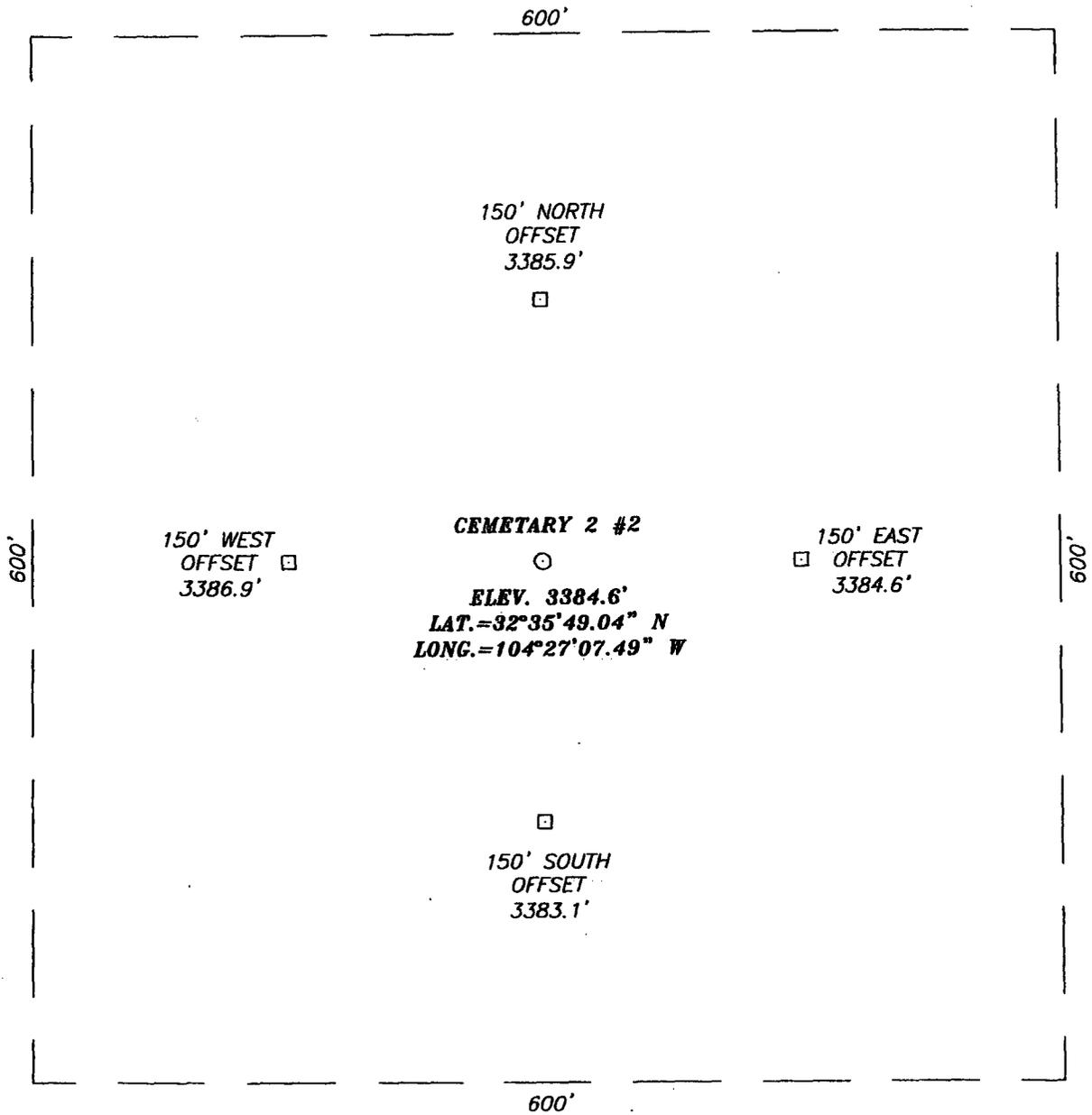
Date Surveyed

LA

Signature & Seal of Professional Surveyor

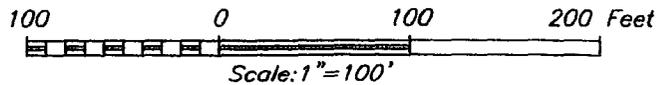
Gary E. Bidson 104
04.11.1377
Certificate No. GARY BIDSON 128

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



DIRECTIONS TO LOCATION

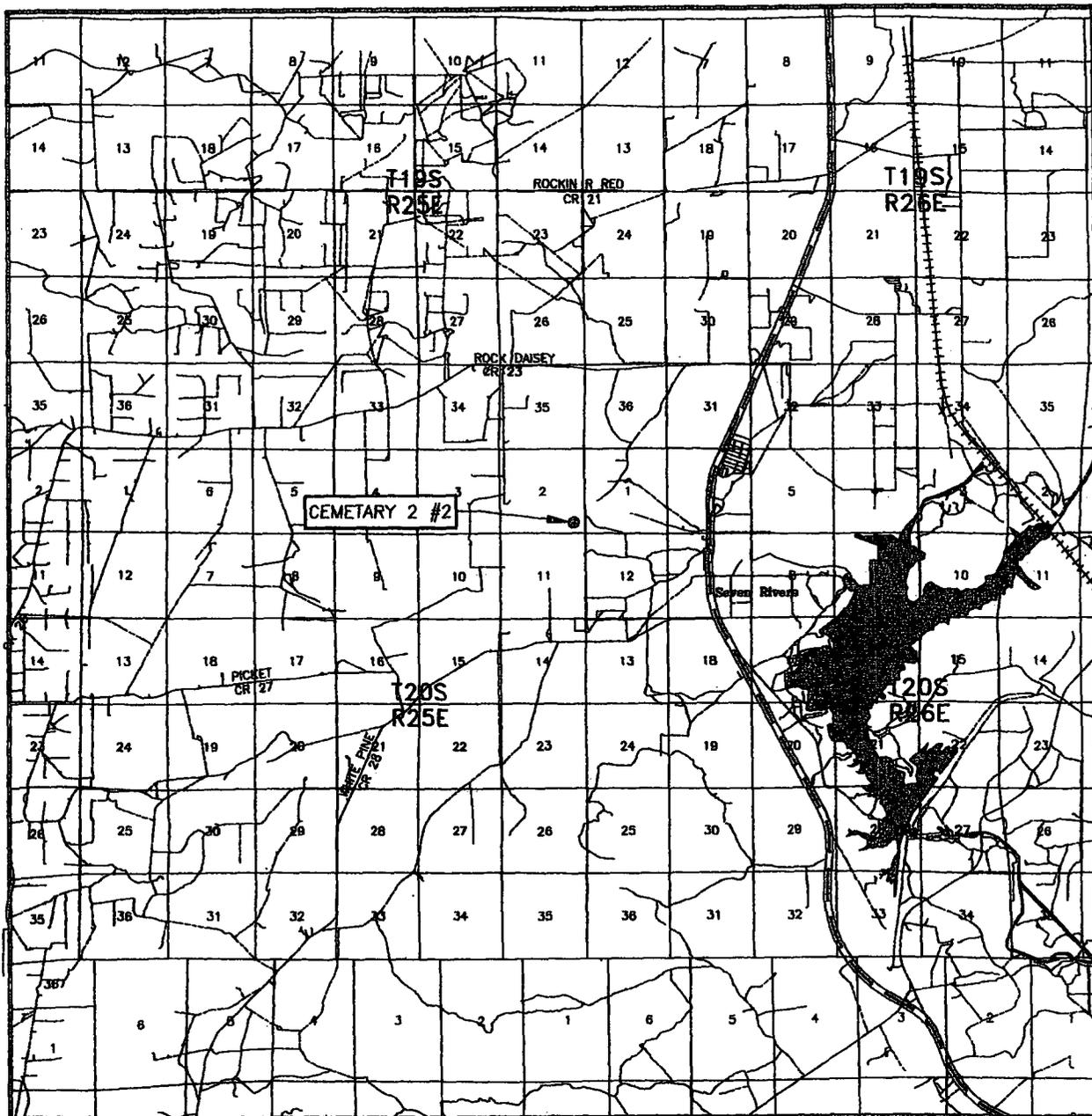
FROM THE INTERSECTION OF ST. HWY #285 AND CO. RD. #23 (ROCK DAISY) GO WEST ON CO. RD. #23 APPROX. 3.0 MILES. TURN LEFT & GO SOUTH 1.6 MILES. TURN LEFT & GO EAST APPROX. 0.6 MILES ON LEASE ROAD. THIS LOCATION IS 2200'± SOUTH.



PROVIDING SURVEYING SERVICES
 SINCE 1948
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (805) 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



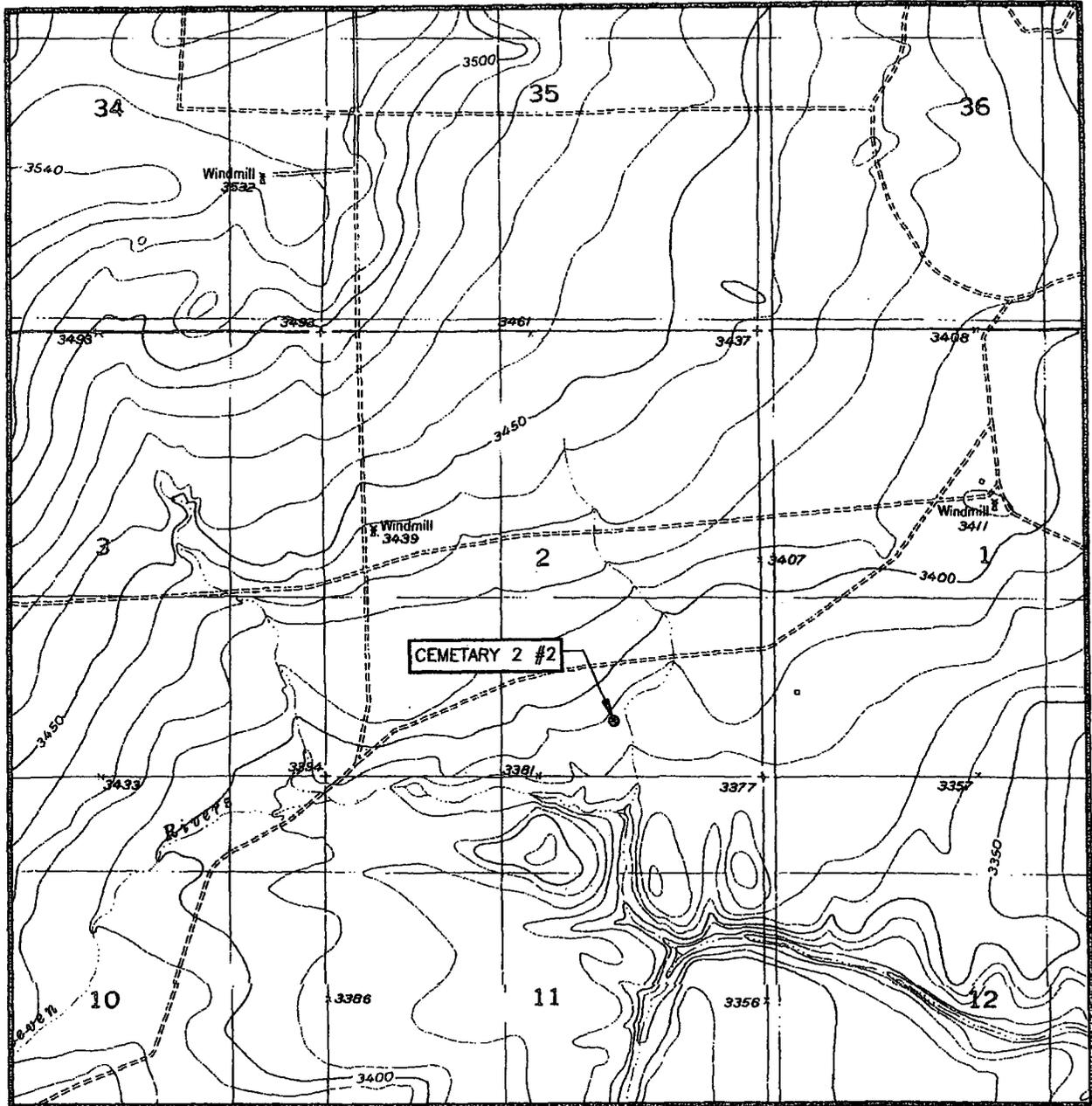
SCALE: 1" = 2 MILES

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 CEMATARY 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
HOBBS, 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.

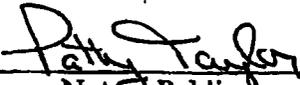
6. Lastly, we performed several internet searches on Google, Yahoo and Anywho.com for Santa Fe without success along with the Secretary of State of New Mexico. Additionally, we searched the names of anyone who signed on behalf of Santa Fe on records filed with the OCD and found no listing.
7. I have 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

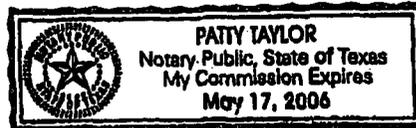
Subscribed, sworn to and acknowledged before me on this 11th day of April, 2005, by Jesse Blue.



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

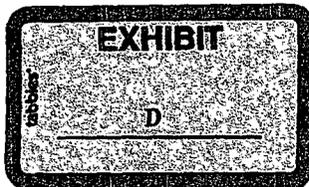
Gentlemen:

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, appearing to read "Bo Blue". The signature is written in a cursive, flowing style.

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 TO 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
Mob & Demob	105	40,000
Transportation / Hauling / Barges	106	204
Drilling / Completion Rig - Turnkey/Footage	107	205
Drilling / Completion Rig - Day Rate	108	206
Cementing - Materials / Services	111	207
Drilling Mud / Completion Fluids	112	208
Water	113	209
Fuel	114	210
Open Hole - Logging / Coring	115	211
Engineering / Supervision	116	212
Geological / Petrophysical Services	117	213
Casing Services	118	214
Supplies	119	215
Drilling / Completion Overhead	120	216
Equipment Rentals	123	217
Surface Damages	124	218
Wellhead Equipment	133	219
Stickline / Swabbing		220
Cased Hole - Logging / Perforating		221
Stimulation - Materials / Services		222
Insurance	145	223
Coiled Tubing - Materials / Services		224
Chemicals - Other		225
Gravel Pack - Materials / Services		226
Bits - Drilling / Completion	156	227
Treating		228
Testing / Analysis	160	229
Communications	161	230
Labor	162	231
P & A Expense	197	232
Taxes	199	233
Miscellaneous	199	234
	199	235
	199	236
Contingencies	199	236
Total Intangibles	860,800	264,350

TANGIBLE COSTS

Conductor Pipe	20" Set @ 40'	110	4,500	
Surface Casing	13 3/8" Set @ 350'	121	10,850	
Intermediate Casing / Liner	8 5/8" Set @ 3000'	122	81,000	
Production Casing / Liner		122		
Tie-Back	5 1/2" Set @ 9,600'	11.00	P/FI	226
Tubing		P/FI		226
Downhole Equipment	2 7/8" @ 9,300	\$ 4.80	P/FI	227
Artificial Lift Equipment				227
Tree & Other Production Equipment				231
Tanks				232
Pipe, Fillings, Valves, etc.				233
Separators, Trealers, Heaters, etc.				234
Taxes			2,750	235
Miscellaneous				236
Total Tangibles			99,100	218,590

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

APPROVALS

Company	Signature	Title	Date
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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: Cemetery "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

REC VED FEB 18 1998

Form C-103 Revised 1-1-89

State of New Mexico Energy, Minerals and Natural Resources Department

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

Submit 3 Copies to Appropriate District Office

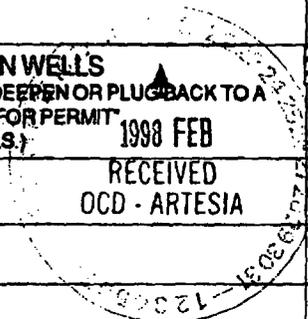
DISTRICT I P.O. Box 1980, Hobbs, NM 88240

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 [], 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 5-8-98 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 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
Mob & Demob	105	40,000
Transportation / Hauling / Barges	106	205
Drilling / Completion Rig - Turnkey/Footage	107	206
Drilling / Completion Rig - Day Rate	108	207
Cementing - Materials / Services	111	208
Drilling Mud / Completion Fluids	112	211
Water	113	212
Fuel	114	213
Open Hole - Logging / Coring	115	214
Engineering / Supervision	116	215
Geological / Petrophysical Services	117	216
Casing Services	118	218
Supplies	119	219
Drilling / Completion Overhead	120	220
Equipment Rentals	123	223
Surface Damages	124	7,000
Wellhead Equipment	133	15,000
Slickline / Swabbing		228
Cased Hole - Logging / Perforating		229
Stimulation - Materials / Services		230
Insurance	145	233
Coiled Tubing - Materials / Services		245
Chemicals - Other		250
Gravel Pack - Materials / Services		254
Bits - Drilling / Completion	156	255
Treating		256
Testing / Analysis	160	258
Communications	161	259
Labor	162	260
P & A Expense	197	262
Taxes	199	20,000
Miscellaneous	199	15,000
	199	299
	199	299
Contingencies	199	299
	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'	121	10,850	
Intermediate Casing / Liner	8 5/8" Set @ 3000'	122	81,000	
Production Casing / Liner		122		
Tie-Back	5 1/2" Set @ 9,600'			226
Tubing				105,600
Downhole Equipment	2 7/8" @ 9,300			226
Artificial Lift Equipment				P/FI
Tree & Other Production Equipment				227
Tanks				44,640
Pipe, Fittings, Valves, etc.				231
Separators, Treaters, Heaters, etc.				7,500
Taxes			2,750	232
Miscellaneous				3,000
				233
				18,000
				234
				5,000
				235
				25,000
				236
				9,850
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 ESTIMATED COSTS INCURRED IN CONDUCTING THE OPERATIONS.

AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS IN EXCESS OF THE AMOUNTS HEREIN SET OUT.

