

# 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

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