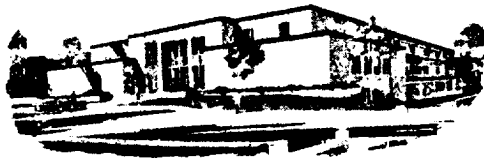


State of New Mexico



W.R. HUMPHRIES
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

January 19, 1989

Mr. George A. Chase
P. O. Box 637
Artesia, NM 88210

Re: State of New Mexico Oil and Gas Lease K-5274-1

Gentlemen:

Our records indicate that you are the operator of the Cabot State No. 1, located in NE-1/4 of the NW-1/4 of Section 29, Township 15S, Range 32E. This well is located upon the inactive State of New Mexico lease K-5274, which expired for lack of production in its extended term as of November 2, 1987. The acreage on which the well is located was leased as of August 1, 1988 to Terra Resources Inc.

We note that the Cabot State No. 1 has been produced while the acreage dedicated to the well is unleased. Our records show the following production subsequent to the expiration of the lease:

<u>Month-Year</u>	<u>Volume(bbls)</u>	<u>Value</u>
April, 1988	25	\$412.50
May, 1988	15	\$262.50
June, 1988	20	\$325.00
July, 1988	10	\$152.50
Total	70	\$1152.50

Under Section 19-6-3 NMSA 1978, your actions constitute an illegal trespass. That section provides in part: "any lessee of lands who shall not vacate same within thirty days after expiration or cancellation of his lease...shall be guilty of a misdemeanor, and upon conviction thereof, shall be punished by a fine of not more than five hundred dollars... Each day's violation of any of the provisions of this act shall constitute a separate offense.".

In addition, the above listed production, which occurred after the expiration of the original lease, constitutes a criminal depredation upon State Trust Lands as defined in Section 19-6-4 NMSA 1978. That section provides in part: "Any