



THE UNIVERSITY OF TEXAS SYSTEM  
*University Lands Accounting Office*  
*West Texas Operations*  
P.O. Box 579 Austin, Texas 78767-0579

BRYCE BALES, CPA  
*Assistant Director of*  
*University Lands, Accounting*  
P.O. Box 579  
Austin, Texas 78767-0579

TEL: (512) 499-4700  
FAX: (512) 494-3528  
email: [bbales@utsystem.edu](mailto:bbales@utsystem.edu)  
[www.utlands.utsystem.edu](http://www.utlands.utsystem.edu)

April 20, 2004

Attn: Land/Legal Records Manager  
Preston Exploration, LLC  
P. O. Box 7520  
The Woodlands  
Spring, TX 77387

RE: **UT Lease #98828:** E/2 Section 7, Block 3, University Lands Survey, Andrews County, Texas

Gentlemen:

Our records indicate the captioned lease has ceased producing and automatically terminated under its own terms. The records reflect no production from this lease for the months of December 2003 and January 2004. This office has received no evidence that additional drilling or reworking operations were commenced, nor was a shut-in payment made to continue the term of this lease. Therefore, one hundred percent (100%) of any production from these lands now belongs to the University. If you do not agree with this conclusion, please advise this office of your position within fifteen (15) days from receipt of this letter in order to prevent a change of status on all records of these leases to "Terminated".

In accordance with the terms of this lease, you must not remove the casing or any part of the equipment from the well on the lease without the written consent of the Board for Lease of University Lands or its authorized representative. All dry or abandoned wells must be plugged to the satisfaction of the Railroad Commission of the State of Texas. Please contact the office of University Lands - West Texas Operations in Midland, Texas at (432) 684-4404 regarding these matters.

Termination of this lease does not relieve you of any rentals, royalties or financial obligations, which may have accrued. A release of this lease should be executed and placed of record in Andrews County, Texas. A legible copy of the recorded release should be filed with this office. There are no fees required for filing a release.

Thank you for your cooperation. Should you have any questions regarding this matter or if we can be of further assistance, please contact Georgia Pruitt at (432) 688-0446 or via email at [gpruitt@utsystem.edu](mailto:gpruitt@utsystem.edu).

Sincerely,

Patsy Neidig  
Land Records Supervisor

PN/GLP/saw  
(2004-7559)

Preston Exploration, LLC  
April 20, 2004  
Page 2

cc: Preston Exploration Company, LP, 1717 Woodstead Ct., Suite 207, The Woodlands, TX 77380-1448  
Barwis Interests, Ltd., 2201 Southampton Ln., Midland, TX 79705-1714  
KN Resources, LP, P. O. Box 10214, Midland, TX 79702-7214  
Open Ranch Exploration, LP, 4421 Norwood St., Midland, TX 79707-3318  
Plains Marketing, L.P., 500 Dallas St., Suite 700, Houston, TX 77002-4804  
Tenzy Bradley, University Lands Accounting Office  
Jim Benson, Surface Interests, University Lands – West Texas Operations  
James Holtzclaw, Oil & Gas Mineral Interests, University Lands - West Texas Operations

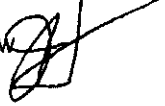


THE UNIVERSITY OF TEXAS SYSTEM

**MEMORANDUM**

April 20, 2004

**TO:** Georgia Pruitt

**FROM:** James Holtzclaw 

**SUBJECT:** UT Lease #: 98828  
County: Andrews  
Block: 3  
Section: 7 (E/2)  
Well Name: University Lands "3-7" #1  
Operator: Preston Exploration, LLC

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**OUR RECORDS INDICATE THAT THE REFERENCED LEASE IS SUBJECT TO TERMINATION:**

( ) YES (  ) NO We have evidence of workover operations on this lease.

Production Month/Year  
12/2003

The University of Texas System  
OIL AND CONDENSATE REPORT  
FORM UT-1

University Lease Number  
98828

Mail to: University Lands Accounting Office  
P. O. Box 579  
Austin, Texas 78767-0579

(refer to reporting manual for instruction on how to complete form)

1. Operator Number 676133

8. Field Name Means, South (Wolfcamp)

2. Operator Name Preston Exploration, LLC

9. Lease Name University Lands 3-7 #1

3. Address PO Box 7520 The Woodlands

10. Purchaser(s) Plains Marketing 11. Affiliated? N

Spraying, TX 77387

[ ] Check if new operator or change of address.

An affiliate is a person or entity (i) that directly or indirectly controls, is controlled by, or is under common ownership or control of the lessee or operator, specifically including parents and subsidiaries; (ii) that owns or controls at least a 10% interest in the lessee or operator; or (iii) in which the lessee or operator owns at least a 10% interest.

4. Royalty Paid By Plains Marketing

5. RRC Lease Number NA 37120 6. RRC District 8 7. Oil or Gas Oil

12. Type of Oil (1) Sour (2) Intermediate/Sweet  
2

NA 37120  
PM

Prior month's adjustments must be reported on Form UT-1A.


13. PRODUCTION INVENTORY STATED IN WHOLE BARRELS						14. ROYALTY CALCULATION				
A. Beginning Stock	B. Gross Production	Disposition			F. Ending Stock	A. Net Barrels	B. API Gravity	C. Market Value *	D. Royalty Decimal	E. Royalty Payment Due University
		C. Pipeline	D. Other	E. Code*						
133	0	0	0	1	133	0.00	\$ 0.00	0.25000	\$ 0.00	

\* Is Market Value equal to gross proceeds?  Yes  No If no, describe how market value was calculated on a separate attachment.

**\*OIL AND CONDENSATE DISPOSITION CODES**

1. Trucks
2. Tank Cars or Barge
3. Net Oil from Tank Cleaning
4. Circulating Oil (Original movement off lease)
5. Lost
6. Basic Sediment and Water (show net oil under Code 3)
7. Other (Explanation required)
8. Skin Oil (Form F-18 allocation)
9. Scrubber Oil (Form R-3 allocation)

I am an authorized representative of the lessee(s) under the University lease identified herein and represent and certify to the board of regents of The University of Texas System that the information provided on this form is true and correct.

Signature  Date 01/06/2004  
Name (please print) R. Douglas Sprague  
Title/Company Production Manager  
Telephone Number 281/367-8697

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JAN 09 '04 JAN 1 2: '04  
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View Original  
Gas Report

# Preston Exploration Llc

Production Month: December 2003

Type Submission: OGSAW Submitted by: GENTZLER, RONALD G. Received Date: 1/15/2004

UT Lease Number: 98828		RRC Number: 37120		District: 08	Type: 0
Lease Name: University Lands 3-7			Field: McFarland (Ellenburger)		
<b>Production and Disposition of Gas Stated in MCF</b>					
Percent of Production Applicable to this Report:		100			
Gross Production Applicable to this Report:		0			
<b>--- Gas Delivered to Processing Plant ---</b>					
Residue Gas Sales:					
Other Use of Residue Gas:		Code:			
Plant Fuel and Natural Gas Liquids:					
<b>--- Non-Processed Gas Disposition ---</b>					
Delivered to Pipeline (Sales):					
Other Use of Non-Processed Gas:		Code:			
<b>Gas Market Values</b>					
BTU Content:					
Gas Value (Residue or Non-Processed Sales)					
Natural Gas Liquids Value:					
Other Value:		Code:			
Total Value:					
Is Market Value equal to gross proceeds?		N/A		Royalty Decimal: .250000	
<b>Royalty Due University</b>					
Royalty Payment Due University:					
Royalty Paid By:		Preston Exploration Llc			
<b>Purchaser Information</b>					
Purchaser:		Affiliated?	Statement Number		
		N/A			

Production Month/Year  
01/2004

The University of Texas System  
**OIL AND CONDENSATE REPORT**  
FORM UT-1

University Lease Number  
98828

Mail to: University Lands Accounting Office  
P. O. Box 579  
Austin, Texas 78767-0579

(refer to reporting manual for instruction on how to complete form)

1. Operator Number 676133

8. Field Name Means, South (Wolfcamp)

2. Operator Name Preston Exploration, LLC

9. Lease Name University Lands 3-7 #1

3. Address PO Box 7520 The Woodlands  
Spring, TX 77387

10. Purchaser(s) Plains Marketing 11. Affiliated? N

Check if new operator or change of address.

An affiliate is a person or entity (i) that directly or indirectly controls, is controlled by, or is under common ownership or control of the lessee or operator, specifically including parents and subsidiaries; (ii) that owns or controls at least a 10% interest in the lessee or operator; or (iii) in which the lessee or operator owns at least a 10% interest.

4. Royalty Paid By Plains Marketing

5. RRC Lease Number N/A 6. RRC District 8 7. Oil or Gas Oil

12. Type of Oil (1) Sour (2) Intermediate/Sweet  
2

Prior month's adjustments must be reported on Form UT-1A.

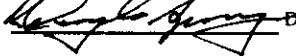
13. PRODUCTION INVENTORY STATED IN WHOLE BARRELS						14. ROYALTY CALCULATION				
A. Beginning Stock	B. Gross Production	Disposition			F. Ending Stock	A. Net Barrels	B. API Gravity	C. Market Value *	D. Royalty Decimal	E. Royalty Payment Due University
		C. Pipeline	D. Other	E. Code*						
133	0	0	0	1	133	0.00	0	\$ 0.00	0.25000	\$ 0.00

\* Is Market Value equal to gross proceeds?  Yes  No If no, describe how market value was calculated on a separate attachment.

**\*OIL AND CONDENSATE DISPOSITION CODES**

1. Trucks
2. Tank Cars or Barge
3. Net Oil from Tank Cleaning
4. Circulating Oil (Original movement off lease)
5. Lost
6. Basic Sediment and Water (show net oil under Code 3)
7. Other (Explanation required)
8. Skim Oil (Form P-18 allocation)
9. Scrubber Oil (Form R-3 allocation)

I am an authorized representative of the lessee(s) under the University lease identified herein and represent and certify to the board of regents of The University of Texas System that the information provided on this form is true and correct

Signature  Date 02/23/2004  
Name (please print) R. Douglas Sprague  
Title/Company Production Manager  
Telephone Number 281/367-8697

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**OFFICIAL**

**ULAO**

**FEB 23 '04**

**FEB 25 '04**

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Production Month/Year  
01/2004

The University of Texas System  
**GAS REPORT**  
FORM UT-2

University Lease Number  
98828

Mail to: University Lands Accounting Office  
P. O. Box 579  
Austin, Texas 78767-0579

(refer to reporting manual for instructions on how to complete form)

1. Reporting Company Preston Exploration, LLC  
 2. Address P.O. Box 7520 The Woodlands  
Spring, TX 77387  
 Check if new reporting company, new operator or change of address.  
 3. Operator Name Preston Exploration, LLC  
 4. Purchaser (s) None 5. Affiliated? Y  
 6. Royalty Paid By Preston Exploration, LLC

7. Reporting Company Number 676133  
 8. RRC Lease Number NA RRC District 8 Oil or Gas Oil  
 9. Lease Name University Lands 3-7 #1  
 10. Field Name McFarland (Ellenburger)  
 11. Meter Number(s) NA

An affiliate is a person or entity (i) that directly or indirectly controls, is controlled by, or is under common ownership or control of the lessee or operator, specifically including parents and subsidiaries; (ii) that owns or controls at least a 10% interest in the lessee or operator; or (iii) in which the lessee or operator owns at least a 10% interest.

Prior month's adjustments must be reported on Form UT-2A.

12. PRODUCTION AND DISPOSITION OF GAS STATED IN MCF

A. % of Production Applicable to this Report  
(if less than 100 %, state reason) 100

B. Gross production Applicable to this Report (equal to sum of C & D) 0

C. Gas Delivered to Processing Plant  
 1. Residue Gas Sales \*Code \_\_\_\_\_  
 Code \_\_\_\_\_  
 2. Other Use of Residue Gas Code \_\_\_\_\_  
 (8) \_\_\_\_\_

D. Non-Processed Gas Disposition  
 1. Delivered to Pipeline (Sales) \*Code 4 \_\_\_\_\_  
 Code \_\_\_\_\_  
 2. Other Use of Non-Processed Gas Code \_\_\_\_\_  
 Code \_\_\_\_\_

13. GAS MARKET VALUES \*

A. (1) Price Per MCF \$ 5.0230 A. (2) BTU Content 1000.0000  
 A. (3) Price Per MMBTU \$ 5.0230  
 B. Gas Value (Residue or Non-Processed Sales) \_\_\_\_\_  
 C. Natural Gas Liquids Value \_\_\_\_\_  
 D. Other Value \*\* Code 4 \$ 0.00  
 \*\* Code \_\_\_\_\_  
 \*\* Code \_\_\_\_\_  
 E. Total Value (equal to sum of B, C and D) \$ 0.00

\* Is Market Value equal to gross proceeds? \_\_\_ Yes \_\_\_ No  
If no, describe how market value was calculated on a separate attachment.

14. ROYALTY DUE UNIVERSITY

A. Royalty Decimal 0.25000 B. Royalty Payment Due University \$ 0.00

REMARKS (attach additional page if necessary):

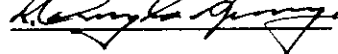
\*Other Disposition Codes

- Gas Lift and Injection on Lease
- Used on Lease
- Used off Lease
- Vented or Flared
- Field Separation and Extraction Loss
- Metering difference
- Other (Explain)

\*\*Other Value Codes

- Gas Lift and Injection on Lease
- Used on Lease
- Used off Lease
- Vented or Flared
- Field Separation and Extraction Loss
- Metering difference
- Other (Explain)
- Sulfur
- Tax Reimbursement

I am an authorized representative of the lessee(s) under the University lease identified herein and represent and certify to the board of regents of The University of Texas System that the information provided on this form is true and correct

Signature   
 Date 02/23/2004  
 Name (please print) R. Douglas Sprague  
 Title/Company Production Mgr/Preston Exploration, LLC  
 Telephone Number 281.367.8697

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THE UNIVERSITY OF TEXAS SYSTEM  
 UNIVERSITY LANDS ACCOUNTING OFFICE  
 WELL REPORT  
 FOR UT LEASE 098828

UT LEASE STATUS: PR

API NBR: 42 003 38988  
 SERIAL NBR: 7757

-- R E M A R K S --

COUNTY: ANDREWS  
 BLOCK: 3  
 SECTION: 7  
 PART: E/2

LOCATION:  
 2350 FNL & 2150 FEL OF SEC

RRC ID: 37120 08 O  
 Field: MCFARLAND (ELLENBURGER)

Operator	Well Name	Weekly Letter	Effective Date	Action	Well Status
PRESTON EXPLORATION LLC	UNIVERSITY LANDS "3-7" #1	3700	11/09/2002	SPUD	DR
		3713	02/11/2003	COMP	PR
		3762	05/12/2003	P&A	PA

RRC ID: 999999 08 O  
 Field: MEANS, SOUTH (WOLFCAMP)

Operator	Well Name	Weekly Letter	Effective Date	Action	Well Status
PRESTON EXPLORATION LLC	UNIVERSITY LANDS "3-7" #1	3762	06/01/2003	RNTR	DR
		3762	06/05/2003	RCMP	PR