

Preston Exploration, L.L.C.

VIA FAX & MAIL

7003 3680 0006 9703 9836

April 20, 2004

Murchison Oil and Gas, Inc.
1100 Mira Vista Blv.
Plano, TX 75093

Attn: Mr. Michael Daugherty

Re: AFE to drill Roughneck Red "29" Com #1
N/2 of Section 29, T17S, R26E
Roughneck Red Prospect
Eddy County, New Mexico

Dear Mr. Daugherty:

We are in receipt of your letter dated April 14, 2004 offering to farmout your interest in the N/2 of Section 29 delivering a 75% net revenue interest and retaining a back in of 30% after payout. This proposal is unacceptable under these terms.

We are willing to acquire a term assignment from Murchison for a reasonable bonus amount and delivering to us a 75% net revenue interest. In the alternative, we will continue to seek to recover our cost plus 200% at our Compulsory Pooling hearing (NMOCD Case No. 13236) set for April 29, 2004 or we would welcome Murchison as a partner in the drilling of this Morrow test well.

Yours very truly,



Bo Blue
New Ventures Land Manager

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO 4540
CONNECTION TEL 919729310701
SUBADDRESS
CONNECTION ID JD Murchison Int
ST. TIME 04/20 08:37
USAGE T 01'54
PGS. SENT 2
RESULT OK

Preston Exploration, LLC

1717 Woodstead Court, Suite 207 - 77380 PO Box 7520 - 77387 The Woodlands, Texas (281) 367-8697 Fax (281) 364-4819

FAX TRANSMISSION SHEET

DATE: 4-20-04

TO: ATTENTION: Mr. Michael Daugherty

COMPANY: Murchison Oil and Gas, Inc.

FAX NUMBER: 972-931-0701

FROM: NAME: Bo Blue

TOTAL NUMBER OF PAGES INCLUDING THIS COVER SHEET: 2

MESSAGE:

