

# CACTUS ENERGY, INC.

P.O. Box 2412 • Midland, Texas 79702

Office (915) 684-5824 • FAX (915) 686-7109

March 29, 2004

Capstone Oil and Gas Company, L.P.  
P.O. Box 10187  
Midland, TX 79702

Attn: Mark Wheeler

RE: Roughneck Red "29" Com #1  
T-17-S, R-26-E, N.M.P.M.  
Section 29: N/2  
Eddy County, New Mexico

Dear Mark:

Cactus Energy, Inc. ("Cactus") is in receipt of your well proposal and AFE for the above referenced well. The interest you show for Cactus is incorrect. The correct interest for Cactus, Saguaro Resources, Inc (formerly Thomas R. Smith) and E3 Energy, Inc. (formerly Wendell W. Iverson, Jr.) are as follows:

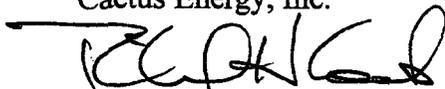
	<u>Leasehold Int.</u>	<u>% of Proration Unit</u>	<u>Net Leasehold Int.</u>
Cactus Energy, Inc.	.0815972	16.66667%	.0135995
Saguaro Resources, Inc.	.0399305	16.66667%	.0066551
E3 Energy, Inc.	.0399305	16.66667%	.0066551

Enclosed you will find a copy of the recorded assignment from Smith and Iverson into Saguaro and E3, respectively. Also enclosed you will find a signed AFE from all three parties evidencing their election to participate in your well. We would appreciate you forwarding each company a JOA for our review and execution, along with an updated Drilling Title Opinion. It should be noted that each parties election to participate in the above referenced well is based on Capstone drilling said well at the proposed location. In the event you elect to drill said well at an alternate location, or directionally drill said well, each party reserves the right to make a separate election on such subsequent well proposal.

Please let me know if you have any questions or comments.

Sincerely,

Cactus Energy, Inc.



Richard H. Coats

cc: Saguaro Resources, Inc.  
E3 Energy, Inc.

**Capstone Oil & Gas Company, LP  
AUTHORITY FOR EXPENDITURE**

WELL NAME: Roughneck Red "29" #1  
LOCATION: 1480' FNL & 1980' FWL  
Section 29 - T17S - R26E  
N/2 Sec. 29 Proration Unit

PROSPECT NAME: Roughneck Red  
COUNTY & STATE: Eddy, New Mexico  
OBJECTIVE: 8,400' Morrow Gas Well  
AFE CODE: New Drill and Complete

INTANGIBLE COSTS	BCP	ACP	TOTAL		
PERMITS	502	2,500	702	0	2,500
TITLE OPINION & CURATIVE	504	3,000	704	0	3,000
SURVEYING / STAKE LOCATION	506	3,000	706	0	3,000
DAMAGES & R-O-W'S	508	0	708	0	0
ROADS, LOCATION, PITTS, LINERS, ETC.	510	20,000	710	1,000	21,000
DRILLING - FOOTAGE	512	0		0	0
DRILLING - DAYWORK: 21 days @ \$7500/day	514	157,500	714	0	157,500
DRILLING MUD & CHEMICALS	516	50,000	716	0	50,000
WATER	518	25,000	718	0	25,000
BITS, REAMERS, ETC.	520	25,000	720	0	25,000
FUEL	522	15,000		0	15,000
CEMENTING SURFACE	524	12,000		0	12,000
CEMENTING 1st & 2nd INTERMEDIATE CASINGS	526	0		0	0
CEMENTING PRODUCTION LINER		0	728	35,000	35,000
TUBULAR SERVICES AND TOOLS	530	15,000	730	2,235	17,235
CASING CREWS / PU LD MACHINE	532	8,000	732	2,500	10,500
FLOAT EQUIPMENT & LINER HANGER	534	18,100	734	15,000	33,100
TESTING: DST & COMPLETION	536	0	736	6,000	6,000
OPEN HOLE LOGGING / CASED HOLE LOGS	538	25,000		0	25,000
MUD LOGGING	540	10,000		0	10,000
WELDING & HOURLY LABOR	542	3,500	742	12,500	16,000
EQUIPMENT RENTAL	544	15,000	744	6,530	21,530
RIG MOBILIZATION, TRANSPORTATION, ETC.	546	35,000	746	1,875	36,875
COMPLETION UNIT		0	748	10,000	10,000
FORMATION STIMULATION: Breakdown & Frac		0	750	65,000	65,000
WIRELINE SERVICES / TCP SERVICES	552	2,500	752	8,600	11,100
GEOLOGIC / ENGINEERING	554	15,000	754	5,000	20,000
CONTRACT LABOR	556	30,000	756	13,000	43,000
DRILLING WELL RATE (A/O)	558	5,400	758	4,000	9,400
INSURANCE	560	8,000	760	0	8,000
MISCELLANEOUS	562	1,500	762	750	2,250
CONTINGENCY (10%)	564	84,200	764	0	84,200
<b>TOTAL INTANGIBLES</b>		<b>589,200</b>		<b>188,990</b>	<b>778,190</b>

**TANGIBLE COSTS**

CONDUCTOR CASING	602	4,235		0	4,235
SURFACE CASING	604			0	0
500' of 13 3/8", 68#, J-56, 8rd STC new API		7,000		0	7,000
INTERMEDIATE CASING	608	0		0	0
2900' of 9 5/8", 43.5# & 47#, N-80, 8rd LTC/BTC new		37,700		0	37,700
DEEP INTERMEDIATE CASING	612	0		0	0
of 7", 29#, P-110, 8rd LTC new API		0		0	0
PRODUCTION CASING / LINER	616	0	816		0
8,450' of 5 1/2", 15.10#, P-110, FL4S, new API		57,120		24,720	81,840
TUBING: 8,450' 2 7/8" 4.70# P110, 8rd ABM, API	620	27,300	820	37,450	64,750
WELLHEAD EQUIPMENT	622	6,000	822	18,000	24,000
SURFACE LIFT & ELECTRICITY	624	0	824	0	0
RODS AND PUMP	626	0	826	0	0
PACKERS, BP'S, DOWNHOLE EQUIPMENT	628	0	828	7,100	7,100
GAS PRODUCTION EQUIPMENT	630	0	830	17,000	17,000
SEPARATOR, TREATER	632	0	832	2,000	2,000
FLOWLINES, VALVES, CONNECTIONS	634	0	834	8,500	8,500
TANKS (Water and Production)	636	0	836	2,500	2,500
MISCELLANEOUS	638	1,500	838	1,000	2,500
CONTINGENCY (10%)	640	14,086	840	5,914	19,999
<b>TOTAL TANGIBLES</b>		<b>154,941</b>		<b>124,184</b>	<b>279,124</b>
<b>TOTAL WELL COSTS</b>		<b>744,141</b>		<b>313,174</b>	<b>1,057,314</b>

PLUGGING COST 566 23,368

ACCEPTED THIS 23<sup>rd</sup> DAY OF March, 2003.

*Richard D. ... President, Capstone Energy, Inc.*

**Capstone Oil & Gas Company, LP  
AUTHORITY FOR EXPENDITURE**

<b>WELL NAME:</b> Roughneck Red "29" #1	<b>PROSPECT NAME:</b> Roughneck Red
<b>LOCATION:</b> 1480' FNL & 1980' FWL	<b>COUNTY &amp; STATE:</b> Eddy, New Mexico
Section 29 - T17S - R26E	<b>OBJECTIVE:</b> 8,400' Morrow Gas Well
N/2 Sec. 29 Proration Unit	<b>AFE CODE:</b> New Drill and Complete

<b>INTANGIBLE COSTS</b>		<b>BCP</b>		<b>ACP</b>		<b>TOTAL</b>
PERMITS	502	2,500	702	0		2,500
TITLE OPINION & CURATIVE	504	3,000	704	0		3,000
SURVEYING / STAKE LOCATION	506	3,000	706	0		3,000
DAMAGES & R.O.W.S	508	0	708	0		0
ROADS, LOCATION, PITS, LINERS, ETC.	510	20,000	710	1,000		21,000
DRILLING - FOOTAGE	512	0		0		0
DRILLING - DAYWORK: 21 days @ \$7500/day	514	157,500	714	0		157,500
DRILLING MUD & CHEMICALS	516	50,000	716	0		50,000
WATER	518	25,000	718	0		25,000
BITS, REAMERS, ETC.	520	25,000	720	0		25,000
FUEL	522	15,000		0		15,000
CEMENTING SURFACE	524	12,000		0		12,000
CEMENTING 1st & 2nd INTERMEDIATE CASINGS	526	0		0		0
CEMENTING PRODUCTION LINER		0	728	35,000		35,000
TUBULAR SERVICES AND TOOLS	530	15,000	730	2,235		17,235
CASING CREWS / PU LD MACHINE	532	8,000	732	2,500		10,500
FLOAT EQUIPMENT & LINER HANGER	534	18,100	734	15,000		33,100
TESTING; DST & COMPLETION	536	0	736	6,000		6,000
OPEN HOLE LOGGING / CASED HOLE LOGS	538	25,000		0		25,000
MUD LOGGING	540	10,000		0		10,000
WELDING & HOURLY LABOR	542	3,500	742	12,500		16,000
EQUIPMENT RENTAL	544	15,000	744	6,530		21,530
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WIRELINE SERVICES / TCP SERVICES	552	2,500	752	8,600		11,100
GEOLOGIC / ENGINEERING	554	15,000	754	5,000		20,000
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MISCELLANEOUS	562	1,500	762	750		2,250
CONTINGENCY (10%)	564	84,200	764	0		84,200
<b>TOTAL INTANGIBLES</b>		<b>589,200</b>		<b>188,980</b>		<b>778,180</b>

**TANGIBLE COSTS**

CONDUCTOR CASING	602	4,235		0		4,235
SURFACE CASING	604			0		0
500' of 13 3/8", 68#, J-55, 8rd STC new API		7,000		0		7,000
INTERMEDIATE CASING	608	0		0		0
2900' of 9 5/8", 43.5#, & 47#, N-80, 8rd LTC/BTC new		37,700		0		37,700
DEEP INTERMEDIATE CASING	612	0		0		0
of 7", 29#, P-110, 8rd LTC new API		0		0		0
PRODUCTION CASING / LINER	616	0	816			0
8,450' of 5 1/2", 15.10#, P-110, FL4S, new API		57,120		24,720		81,840
TUBING: 8,450', 2 7/8", 4.70#, P110, 8rd ABM, API	620	27,300	820	37,450		64,750
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<b>TOTAL WELL COSTS</b>		<b>744,141</b>		<b>313,174</b>		<b>1,057,314</b>

PLUGGING COST 566 23,366

ACCEPTED THIS 23<sup>rd</sup> DAY OF March, 2004

Saguaro Resources, Inc.

*Thomas R. Smith*  
Thomas R. Smith, President

Prepared By: Capstone Oil & Gas Co., L.P.  
Midland, Texas

Date of Final Preparation: September 1, 2003

**Capstone Oil & Gas Company, LP  
AUTHORITY FOR EXPENDITURE**

WELL NAME: Roughneck Red "29" #1  
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PACKERS, BPS, DOWNHOLE EQUIPMENT	628	0	7,100	7,100
GAS PRODUCTION EQUIPMENT	630	0	17,000	17,000
SEPARATOR, TREATER	632	0	2,000	2,000
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PLUGGING COST 566 23,366

ACCEPTED THIS 19 DAY OF February 2003

E3 Energy, Ltd.

*Wendell W. Iverson, Jr.*  
 Wendell W. Iverson, Jr. - General Partner

Prepared By: Capstone Oil & Gas Co., LP.  
 Midland, Texas

Date of Final Preparation: September 1, 2003