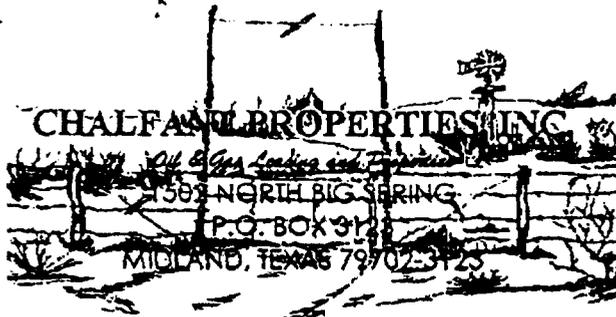


WILLIAM A. CHALFANT, CPL
DONNIE MICHAEL, RLP

Ofc: (915) 684-6619
Fax: (915) 682-2601



3

March 13, 2001

LOUIS DREYFUS NATURAL GAS CORP
ATTN: Land Department
14000 Quail Springs, Pkwy Fl 600
Oklahoma City, OK 73134 - 2616

Via Certified Mail

RE: Chesapeake's proposed Nellie 1-21
Well, N/2SE/4 of Section 21, T-16-S, R-37-E,
Lea County, NM

To whom it may concern:

Chesapeake operating, Inc. hereby proposes to drill the captioned well to a total depth of 12,000 feet to test the Strawn Formation. The well will be drilled at a location in the N/2SE/4 of Section 21, T-16-S, R-37-E, Lea County, New Mexico.

Attached is Chesapeake's AFE reflecting dry-hole costs of \$1,119,000.00 and completed well costs of \$1,706,000.00. Austral Oil Company, Inc. is the record title owner of 0.2625 mineral acres in the proposed 80-acre unit. Chesapeake offers Austral the opportunity to participate in the drilling of the Nellie 1-21 well with a working interest of 0.23625% and a proportionate dryhole cost of \$3,671.72.

Should Austral elect to participate, please have the appropriate party(ies) sign the attached AFE and return it to me at your earliest convenience. Upon receipt, a Joint Operating Agreement will be forwarded for signature.

If you have any questions, please call the undersigned at the number listed or, alternatively, Ms. Lynda Townsend of Chesapeake Operating, Inc. at 405-879-9414.

Sincerely,

Donnie Michael

DM/jkw
Enclosures

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12660 Exhibit No. — 3
Submitted By:
Chesapeake Inc.
Hearing Date: May 31, 2001