

Preston Exploration, L.L.C.

March 23, 2004

Chase Farms, Ltd.  
P. O. Box 960  
Artesia, NM 88211-0960  
Attn: Mr. Ron Lanning

Re: Surface Proposal for Location of  
Wellsite Pad for Well(s)  
N/2 Section 29, T17S, R26E  
Roughneck Red Prospect  
Eddy County, New Mexico

Dear Ron:

Pursuant to your meeting in the field with the Capstone Oil & Gas representatives on March 8<sup>th</sup> and to the subsequent meeting with Mr. Randy Ford, our drilling engineer, please consider this letter as Preston Exploration, LLC's formal proposal to locate our proposed surface operation for the drilling of a Morrow test well in the captioned N/2 of Section 29 on the former house site located in the S/2 SW/4 NE/4 of said Section 29. Mr. Ford has indicated that it will be necessary to expand the existing surface disturbance by approximately 100' to the North and 100' to the East in order to accommodate the dimensions required for a drilling rig and associated equipment and pits. This proposal will allow Preston to drill a well directionally from this surface location to the expected bottom hole location in the SW/4 NE/4 of said Section 29, T17S, R26E, NMPM, Eddy County, New Mexico.

We are currently preparing a revised AFE for the drilling of our initial Morrow test well and will be forwarding it to Chase Energy and the other working interest participants in the initial test well in the next few days. Once all parties who desire to participate in the initial test well execute their AFE's and a mutually acceptable Joint Operating Agreement covering the N/2 of said Section 29 naming Preston as operator, we will dismiss our pending compulsory pooling hearing currently set up for the April 1<sup>st</sup> docket. In deference to the timing required to obtain responses from all parties, we will be continuing said hearing until the April 15<sup>th</sup> docket.

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Please advise at your earliest convenience if this proposal is acceptable to Chase Farms, Ltd. We look forward to working with you on this venture and appreciate your assistance in locating the surface location that works best for all parties involved.

Should you have any questions concerning this matter, please feel free to contact me at (281) 296-1158 or email me at [bblue@prestonexpl.com](mailto:bblue@prestonexpl.com) . I look forward to hearing from you shortly.

Sincerely,

PRESTON EXPLORATION, L.L.C.

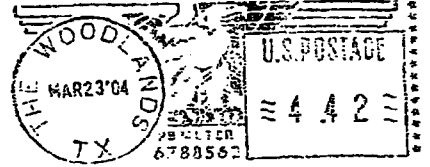
A handwritten signature in black ink that reads "Bo Blue". The signature is fluid and cursive, with a long horizontal stroke at the end.

Bo Blue  
New Ventures Land Manager

xc: Dale Douglas / Randy Ford

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Chase Farms, Ltd.	
Street Apt No. <b>P.O. Box 960</b>	
or PO Box No.	
City, State, ZIP+4 <b>Artesia, NM 88211-0960</b>	
PS Form 3800, June 2002 SEE Reverse for Instructions	