



# Eland Energy, Inc.

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August 23, 2001

Exco Resources, Inc.  
1775 Sherman Street, Suite 2600  
Denver, CO 80203  
Attn: Gayle Baker  
Fax: 303/831-1397

Providence Energy Corp.  
14860 Montfort, Suite 209  
Dallas, TX 75240  
Attn: Mike Allen  
Fax: 972/934-2310

Re: Federal IX Com #3,  
W/2 Sec. 3, T9S-R26E,  
Chaves County, NM

Ladies/Gentlemen:

As you know, discussions have been underway for almost a year concerning the possibility of drilling a pre-Abo test well in the above section.

Eland Energy, Inc. ("Eland") hereby proposes the drilling of a 6,250' Ordovician/Wolfcamp test in the above referenced section at 660' FSL & 660' FWL. Enclosed please find Eland's AFE to drill and complete said well.

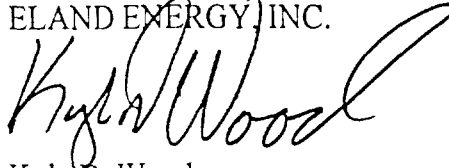
Eland proposes that the operating agreement dated March 29, 1977 ("the JOA") covering rights from the surface to the base of the Abo be amended to cover all depths, and that the JOA be the governing operating agreement for the drilling and operating of the subject well. Further, Eland proposes that the JOA be amended by adding the enclosed Cost Allocation Formula previously proposed by Yates Petroleum Corp. ("Yates").

This proposal is addressed to the record title owners in the referenced acreage, however it has been brought to Eland's attention that Yates Petroleum, et al may own a contractual interest. Therefore by copy of this letter, Yates is being informed of the proposal and invited to comment. Should it be determined that Yates is entitled to participate in the subject well, Eland would be willing to allow Yates to serve as Operator under the JOA.

Should you desire to participate in the subject well, please execute the AFE and return it to my attention at the below address. Upon receipt of executed AFEs from all entitled parties, Eland will prepare the amendment to the JOA and will forward for your review.

Please contact the undersigned with comments or questions pertaining to this proposal.

Very truly yours,  
ELAND ENERGY INC.

A handwritten signature in black ink, appearing to read "Kyle D. Wood", written over the printed name.

Kyle D. Wood  
Sr. Landman

Via certified mail and fax (4 pages)

cc: Chuck Moran  
Yates Petroleum Corp.  
105 S. Fourth Street  
Artesia, NM 88210  
Fax: 505/748-4572