

PRESTON EXPLORATION, LLC

AUTHORIZATION FOR EXPENDITURE

Lease and Well No. Orleans 25#1		Prospect Orleans	AFE No.
<input checked="" type="checkbox"/> Exploratory Well <input type="checkbox"/> Development Well	<input type="checkbox"/> Recompletion <input type="checkbox"/> Workover	<input type="checkbox"/> Injection <input type="checkbox"/> SWD	<input checked="" type="checkbox"/> Original <input type="checkbox"/> Supplement
County/Parish, State Eddy County, NM	Survey/Township E/2 of Sec. 25, T18S, R26E, NMPM	Unit Description/Measured Location 880' FNL & 1650' FEL	Protected TD 9,700'
Description of Work Drill and complete Morrow test.			Date Prepared / By 8/30/2005 RDS

INTANGIBLE COSTS

Description	Drilling	Completion
Abstracts / Legal Fees	101	201
Surveys / Permits	102 2,000	202
Right-of-Ways	103 3,000	203
Location - Build, Repair, Set Conductor, Cleanup, & Supervision	104 30,000	204 2,500
Rig Mob & Demob	105 50,000	205
Transportation / Hauling	106 4,000	206 2,000
Completion Rig	107 15 days @ \$ 3,000 /day	207 45,000
Drilling / Completion Rig - Day Work	108 36/3 days @ \$17000 /day	208 51,000
Cementing - Materials / Pumping Services	111 40,000	211 24,000
Drilling Mud / Completion & Workover Fluids	112 55,000	212 3,000
Water / Water Well	113 34,000	213 1,000
Fuel - Diesel / Gas	114 51,250	214
Open hole - Logging / Coring	115 30,000	215
Engineering / Supervision	116 38 days @ \$1,000 /day / 15 days @ \$ 1,000 /day	216 15,000
Geological Services - Mud Logging, Core An	117 28 Days @ \$ 750 /day	217 21,000
Casing Services - Inspect, Lay Down, Pick Up & Run	118 6,500	218 5,000
Supplies	119	219
Drilling / Completion Overhead Rate	120 6,000	220 3,000
Equipment Rentals	123 60,000	223 20,000
Surface Damages	124 2,500	224
Slickline / Swabbing	128	228
Cased hole - Logging / Perforating		229
Stimulation - Materials / Services		230 150,000
Equipment - Inspection, Repair & Maintenance	142 1,500	242
Disposal charges	144	244 3,500
Insurance	145 10,000	245 800
Coiled Tubing / Nitrogen / CO2 , etc.		250
Chemicals - Corrosion	152 1,000	252 1,000
Chemicals - Other	154	254
Gravel Pack - Materials / Service		255
Drilling / Workover Bits	156 65,000	256 1,500
Treating	158	258
Testing / Analysis	160	260 15,000
Communications	161 500	261
Labor	162 18,000	262 7,500
P & A Expense	197 15,000	
Taxes	198 68,468	298 21,310
Misc Expense	199 20,000	299 10,000
	199	299
Contingencies	199 57,983	299 18,040
	5.00 %	
Total Intangibles		1,285,881 400,150

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER 3

TANGIBLE COSTS

Conductor Pipe	40' - 20" Conductor @ \$ 120 /ft.	110 4,800	
Surface Casing	500' - 13/3/8" - J-55 - LT&C @ \$ 62.00 /ft.	121 31,000	
Intermediate Casing	1,600' - 9 5/8" - J-55 - LT&C @ \$ 48.00 /ft.	122 76,800	
Production Casing	9,700' - 6 1/2" - N-80 - LT&C @ \$ 25.00 /ft.		225 242,500
Tubing	9,400' - 2 3/8" - N-80 - EUE @ \$ 6.50 /ft.		227 61,100
Downhole Equipment - Packers, Anchors, Sleeves, etc.			231 10,000
Artificial Lift Equipment			232
Wellhead, Tree, Safety Equipment, etc.		133 3,000	233 7,000
Tanks, Gauge Rings, Walkways, Stairs, Ladders, etc.			234 15,000
Pipe, Fittings, Valves, etc.			235 14,000
Separators, Treaters & Heaters, etc.			236 9,000
Sucker Rods, Collars, Scrapers, etc.			251
Equipment - Measurement, etc.			264 5,000
Downhole Equip. - Shoes, Float Collars, etc.		169 2,500	269 2,000
Taxes	5.63 %	198 9,975	298 21,593
Miscellaneous		199	299
		199	299
Contingencies	5.00 %	199 5,905	299 18,280
Total Tangibles		130,980	405,473

Dry Hole Cost	1,416,881
Completed Well Cost	2,207,284

APPROVALS

Company	Signature	Title	Date
IT IS RECOGNIZED THAT THE AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS AUTHORIZATION SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATION SPECIFIED, WHETHER MORE OR LESS THAN THE AMOUNTS HEREIN SET OUT.			