

LCX Energy, LLC

September 2, 2005

EOG Resources, Inc.
P.O. Box 2267
Midland, Texas 79702

ATTN: Mr. Rick Lanning

RE: LCX Energy, LLC – 1725 Fed Com #61
Eddy County, NM

Gentlemen:

Enclosed for your review and further handling, please find duplicate copies of an Authorization for Expenditure for drilling, completing and equipping the captioned well.

This well is being proposed as a horizontal Abo/Wolfcamp test on jointly owned acreage under the Joint Operating Agreement attached to our Leasehold Exchange and Area of Mutual Interest Agreement dated effective January 15, 2004.

Please complete the participation election in the spaces provided below and, in the event you elect to participate, by signing and dating the AFE. The appropriate documents should be forwarded by fax to my attention at 432-682-8078. Please mail the original documents to my attention at the letterhead address and your check for your proportionate part of the estimated dry hole costs if you desire to participate.

Thank you in advance for your prompt attention to this matter.

Sincerely,

LCX Energy, LLC


Frank G. Nix

Encl.


NMOCD CASE NO. 13628
MARCH 2, 2006
LCX ENERGY, LLC
EXHIBIT NO. 3

EOG Resources, Inc.
September 2, 2005
page 2 of 2

☒ The undersigned elects to **PARTICIPATE** in drilling the captioned well. ~~Enclosed is our check for our proportionate part of the estimated dry hole costs per the AFE.~~

☐ The undersigned elects **NOT TO PARTICIPATE** in drilling the captioned well.

EOG Resources, Inc.

by: 

Steven E. Weatherl Vice President
Printed name and title

9/28/05

LCX ENERGY, LLC

AUTHORITY FOR EXPENDITURE

LEASE & WELL NO.: 1725 Fed Com # 61
COUNTY: Eddy
AFE No.: LCXD5023

Lease # 8085.001

PROSPECT:
STATE: New Mexico
SEC 6, 17S-25E, 760' FWL & 660' FNL SL, 760' FWL & 660' FSL BHL

TOTAL DEPTH: MD 9200'
WELL TYPE: Horizontal

INTENSIVE DRILLING COST

| | | | IDC; ICC | DRY HOLE | COMPLETE | TOTAL |
|---------------------------------------|-----------------------------------------------------|-----------------|------------|----------|----------|-----------|
| Surface Permits & Professional Fees | | | 6.43 | 2,000 | | 2,000 |
| Surface Damages | | | 6.06 | 10,000 | | 10,000 |
| Road & Location Dirtwork | | | 6.07 | 35,000 | 3,000 | 38,000 |
| Drilling Footage | FI @ \$ | per ft | 6.11 | | | |
| Drilling Daywork | 30.0 day @ \$ | 12,500 per day | 6.13 | 375,000 | | 375,000 |
| Rig Mobilization | | | 6.40 | 40,000 | | 40,000 |
| Pulling Unit | 8 day @ \$ | \$2,200 per day | 6.60; 7.39 | | 17,600 | 17,600 |
| Swab Rig | day @ \$ | \$1,000 per day | 7.30 | | | |
| Fuel & Lubricants | | | 6.39 | 40,000 | | 40,000 |
| Mud, Wash Oil & Chemicals | | | 6.12 | 50,000 | | 50,000 |
| Bits, Stabilizers & Reamers | | | 6.08 | 65,000 | | 65,000 |
| Directional Service | MWD, motor, directional package, 11 days @ \$1000/d | | 6.53 | 110,000 | | 110,000 |
| Casing Crews & Equipment | | | 6.01; 7.03 | 7,000 | 5,000 | 12,000 |
| Equipment Rental | | | 6.20; 7.12 | 40,000 | 10,000 | 50,000 |
| Waterwell, Pump & Line | | | 6.47 | 10,000 | 5,000 | 15,000 |
| Water Transport | | | 6.46; 7.17 | 10,000 | 5,000 | 15,000 |
| Cement Service | Kick off plug | | 6.02; 7.43 | 51,000 | 35,000 | 86,000 |
| Drill Stem Testing | @ \$ | per test | 6.54 | | | |
| Coring & Core Analysis | ft @ \$ | per ft | 6.05 | | | |
| Geological Services | | | 6.24 | | | |
| Mud Logging | 15 day @ \$ | 650 per day | 6.33 | 9,800 | | 9,800 |
| Open Hole Log Service | | | 6.34 | 16,000 | | 16,000 |
| Cased Hole Log Service | | | 7.36 | | 10,000 | 10,000 |
| Perforating | TCP + Tracker | | 6.35; 7.35 | | 70,000 | 70,000 |
| Acid Stimulation | | | 7.01 | | | |
| Frac Stimulation | | | 7.16 | | 300,000 | 300,000 |
| Pump Truck & Nitrogen Service | | | 7.19 | | 3,000 | 3,000 |
| Transportation | | | 6.32; 7.32 | 5,000 | 3,000 | 8,000 |
| Contract Labor & Welding | | | 6.04; 7.07 | 1,500 | 1,500 | 3,000 |
| Tubular Inspection | | | 6.45; 7.34 | | | |
| Engineering & Wellsite Supervision | Days @ \$900/day | | 6.18; 7.10 | 27,000 | 7,200 | 34,200 |
| Abandonment | | | 6.55 | | | |
| Environmental, Disposal & Restoration | | | 6.56 | | 10,000 | 10,000 |
| Contingencies @ 5 % | | | 6.98; 7.98 | 45,200 | 24,300 | 69,500 |
| Subtotal: | | | | 949,500 | 509,600 | 1,459,100 |

LEASE & WELL EQUIPMENT

| Tubulars: | Size/Wt./Grade/Thd | Footage | Price | | | |
|--------------------------------------|--------------------|---------|------------------|-----------|---------|-----------|
| Conductor Pipe | | ft @ \$ | per ft | 3.03 | | |
| Surface Casing | 13 3/8" 48# H40 | 385 | ft @ \$ 32.00 | per ft | 3.08 | 12,400 |
| Intermediate Casing | 9 5/8" 38# J55 | 1,300 | ft @ \$ 26.00 | per ft | 3.04 | 33,800 |
| Protection Liner | | | ft @ \$ | per ft | 4.40 | |
| Production Casing | | | ft @ \$ | per ft | 4.21 | |
| Production Liner | 5 1/2" 17# N80 | 9,300 | ft @ \$ 15.00 | per ft | 4.21 | 139,500 |
| Production Tubing | 2 3/8" 4.6# L80 | 4,800 | ft @ \$ 4.50 | per ft | 4.33 | 21,600 |
| Wellhead Equipment | | | 3.09; 4.36 | 4,000 | | 4,000 |
| Flowing Tree | | | 3.09; 4.36 | | 3,500 | 3,500 |
| Pumping Hookup | | | 3.09; 4.36 | | | |
| Liner Hanger, Packer & Tubing Anchor | | | 4.17; 4.20 | | 40,000 | 40,000 |
| Cementing & Float equipment | | | 3.01; 4.41 | 4,000 | 2,000 | 6,000 |
| Pumping Unit w/ Base & Prime Mover | | | 4.22 | | | |
| Electrical Installation | | | 4.15 | | | |
| Rods, Subsurface Pump & Accessories | | | 4.24; 4.28; 4.06 | | | |
| Compressor & Accessories | | | 4.05 | | | |
| SWD Equipment | | | 4.14 | | | |
| Oil Storage Tanks | | | 4.27 | | | |
| SW Fiberglass Tanks | | | 4.35 | | 4,800 | 4,800 |
| Separator | | | 4.26 | | 7,500 | 7,500 |
| Heater-Treater | | | 4.13 | | | |
| Dehydrator/Line Heater | | | 4.38 | | | |
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| Flowline & Connections | | | 4.34; 4.10 | | 1,000 | 1,000 |
| Gas Pipeline, Meter & Installation | | | 4.16 | | 133,500 | 133,500 |
| Subtotal: | | | | 54,200 | 359,400 | 413,600 |
| Grand Total: | | | | 1,003,700 | 869,000 | 1,872,700 |

LCX ENERGY, LLC

WORKING INTEREST PARTNER

Used By: Larry Gillette

DATE: 31-Aug-05

agrees to participate for % W. I.

Used By:

DATE: 9/1/05

Approved By:

DATE:

Title:

Title:

LCX Energy, LLC

September 2, 2005

Elger Exploration, Inc.
P.O. Box 2623
Midland, Texas 79702

ATTN: Mr. Jerry Elger

RE: LCX Energy, LLC – 1725 Fed Com #61
Eddy County, NM

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Frank G. Nix

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by: _____

Printed name and title

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| Grand Total: | | | | | 1,003,700 | 869,000 |
| | | | | | | 1,872,700 |

LCX ENERGY, LLC

Prepared By: Larry Gillette

DATE: 31-Aug-05

WORKING INTEREST PARTNER

Capstone Oil & Gas Company, L.P.

By: Capstone Investments, Inc., G.P.

Approved By:

DATE: 9/1/05

Appr

By:

Date Douglas, Resident

DATE: 10/6/05

Title:

Operations Manager

LCX Energy, LLC

September 2, 2005

Capstone Oil & Gas Company LP
P.O. Box 10187
Midland, Texas 79702

ATTN: Mr. Dale Douglas

RE: LCX Energy, LLC – 1725 Fed Com #61
Eddy County, NM

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Frank G. Nix

Encl.
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September 2, 2005
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by: Capstone Investments, Inc.

by:



Dale Douglas, President

LCX ENERGY, LLC

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LCX ENERGY, LLC

Prepared By: Larry Gillette

DATE: 31-Aug-05

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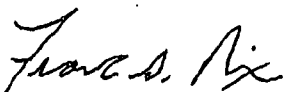
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Printed name and title

9/28/05

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| Equipment Rental | | | 6.20; 7.12 | 40,000 | 10,000 | 50,000 |
| Waterwell, Pump & Line | | | 6.47 | 10,000 | 5,000 | 15,000 |
| Water Transport | | | 6.48; 7.17 | 10,000 | 5,000 | 15,000 |
| Cement Service | | Kick off plug | 6.02; 7.43 | 51,000 | 35,000 | 86,000 |
| Drill Stem Testing | | @ \$ per test | 6.54 | | | |
| Coring & Core Analysis | | ft @ \$ per ft | 6.05 | | | |
| Geological Services | | | 6.24 | | | |
| Mud Logging | 15 | day @ \$ 650 per day | 6.33 | 9,800 | | 9,800 |
| Open Hole Log Service | | | 6.34 | 16,000 | | 16,000 |
| Cased Hole Log Service | | | 7.36 | | 10,000 | 10,000 |
| Perforating | | TCP + Tractor | 6.35; 7.35 | | 70,000 | 70,000 |
| Acid Stimulation | | | 7.01 | | | |
| Frac Stimulation | | | 7.16 | | 300,000 | 300,000 |
| Pump Truck & Nitrogen Service | | | 7.19 | | 3,000 | 3,000 |
| Transportation | | | 6.32; 7.32 | 5,000 | 3,000 | 8,000 |
| Contract Labor & Welding | | | 6.04; 7.07 | 1,500 | 1,500 | 3,000 |
| Tubular Inspection | | | 6.45; 7.34 | | | |
| Engineering & Wellsite Supervision | | Days @ \$900/day | 6.18; 7.10 | 27,000 | 7,200 | 34,200 |
| Abandonment | | | 6.55 | | | |
| Environmental, Disposal & Restoration | | | 6.56 | | 10,000 | 10,000 |
| Contingencies @ 5 % | | | 6.88; 7.98 | 45,200 | 24,300 | 69,500 |
| Subtotal: | | | | 949,500 | 509,600 | 1,459,100 |

LEASE & WELL EQUIPMENT

| Tubulars: | Size/Wt/Grade/Thd | Footage | Price | | | |
|--------------------------------------|-------------------|---------|---------------|------------------|-----------|-----------|
| Conductor Pipe | | ft @ \$ | per ft | 3.03 | | |
| Surface Casing | 13 3/8" 48# H40 | 385 | ft @ \$ 32.00 | per ft | 3.08 | 12,400 |
| Intermediate Casing | 9 5/8" 36# J55 | 1,300 | ft @ \$ 26.00 | per ft | 3.04 | 33,800 |
| Protection Liner | | ft @ \$ | per ft | 4.40 | | |
| Production Casing | | ft @ \$ | per ft | 4.21 | | |
| Production Liner | 5 1/2" 17# N80 | 9,300 | ft @ \$ 15.00 | per ft | 4.21 | 139,500 |
| Production Tubing | 2 3/8" 4.6# L80 | 4,800 | ft @ \$ 4.50 | per ft | 4.33 | 21,600 |
| Wellhead Equipment | | | | 3.09; 4.36 | 4,000 | 4,000 |
| Flowing Tree | | | | 3.09; 4.36 | | 3,500 |
| Pumping Hookup | | | | 3.09; 4.36 | | |
| Liner Hanger, Packer & Tubing Anchor | | | | 4.17; 4.20 | | 40,000 |
| Cementing & Float equipment | | | | 3.01; 4.41 | 4,000 | 2,000 |
| Pumping Unit w/ Base & Prime Mover | | | | 4.22 | | |
| Electrical Installation | | | | 4.15 | | |
| Rods, Subsurface Pump & Accessories | | | | 4.24; 4.28; 4.08 | | |
| Compressor & Accessories | | | | 4.05 | | |
| SWD Equipment | | | | 4.14 | | |
| Oil Storage Tanks | | | | 4.27 | | |
| SW Fiberglass Tanks | | | | 4.35 | | 4,800 |
| Separator | | | | 4.28 | | 7,500 |
| Heater-Treater | | | | 4.13 | | |
| Dehydrator/Line Heater | | | | 4.38 | | |
| Meters, Valves & Connections | | | | 4.34 | | 3,000 |
| Installation | | | | 4.25 | | 3,000 |
| Flowline & Connections | | | | 4.34; 4.10 | | 1,000 |
| Gas Pipeline, Meter & Installation | | | | 4.18 | | 133,500 |
| Subtotal: | | | | | 54,200 | 359,400 |
| Grand Total: | | | | | 1,003,700 | 869,000 |
| | | | | | | 1,872,700 |

LCX ENERGY, LLC

Prepared By: Larry Gillette

DATE: 31-Aug-05

WORKING INTEREST PARTNER

agrees to participate for 3.22575% W. I.

Approved By:

DATE: 9/1/05

Approved By:

DATE: 9/27/05

Title:

Title:



Petroleum Corporation

P.O. Box 10587 • Midland, TX 79701 • Ph: 432-684-3727 • Fax: 432-684-3905

ERIC A. BAYLEY, P.E.
Vice President -
Corporate Engineering

September 30, 2005

LCX Energy, LLC
ATTN: Frank G. Nix
110 N. Marlenfeld, Suite 200
Midland, Texas 79701

RE: Multiple AFE's
Eddy County, New Mexico

Dear Frank:

Enclosed are the executed AFE's you sent Parallel by your letter of September 2, 2005. Parallel intends to participate in these wells to the full extent of its interest. I have indicated the interest we believe to be correct on the AFE's but realize it might be subject to change.

I will send checks to cover the pre-payments on the first two wells as soon as it has been determined which are to be drilled next. Thereafter, Parallel will send additional pre-payments approximately two weeks prior to a rig moving in on a well.

Sincerely,

bayley@parallel-petro.com
www.parallel-petro.com



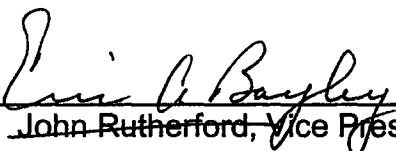
Parallel Petroleum Corporation
September 2, 2005
page 2 of 2

☒ The undersigned elects to **PARTICIPATE** in drilling the captioned well. Enclosed is our check for our proportionate part of the estimated dry hole costs per the AFE.

☐ The undersigned elects **NOT TO PARTICIPATE** in drilling the captioned well.

Parallel Petroleum Corporation

by:


John Rutherford, Vice President

LCX ENERGY, LLC

AUTHORITY FOR EXPENDITURE

LEASE & WELL NO.: 1725 Fed Com # 61
COUNTY: Eddy
AFE No.: LCXD5023

Lease # 8085.001

PROSPECT:

STATE: New Mexico

SEC 6, 17S-25E, 760' FWL & 660' FNL SL, 760' FWL & 660' FSL BHL

TOTAL DEPTH: MD 9200'

WELL TYPE: Horizontal

INTANGIBLE DRILLING COST

| | | | DDC: JCC | DRY HOLE | COMPLETE | TOTAL |
|---------------------------------------|------|-------------------------------------------------------|------------|----------|----------|-----------|
| Survey, Permits & Professional Fees | | | 6.43 | 2,000 | | 2,000 |
| Surface Damages | | | 8.08 | 10,000 | | 10,000 |
| Road & Location Dirtwork | | | 8.07 | 35,000 | 3,000 | 38,000 |
| Drilling Footage | | | 6.11 | | | |
| Drilling Daywork | 30.0 | day @ \$ 12,500 per day | 6.13 | 375,000 | | 375,000 |
| Rig Mobilization | | | 8.40 | 40,000 | | 40,000 |
| Pulling Unit | 8 | day @ \$ 2,200 per day | 6.60; 7.39 | | 17,600 | 17,600 |
| Swab Rig | | day @ \$ 1,000 per day | 7.30 | | | |
| Fuel & Lubricants | | | 6.39 | 40,000 | | 40,000 |
| Mud, Wash Oil & Chemicals | | | 6.12 | 50,000 | | 50,000 |
| Bits, Stabilizers & Reamers | | | 6.08 | 65,000 | | 65,000 |
| Directional Service | | MWD, motor, directional package, 11 days @ \$1000/day | 6.53 | 110,000 | | 110,000 |
| Casing Crews & Equipment | | | 6.01; 7.03 | 7,000 | 5,000 | 12,000 |
| Equipment Rental | | | 6.20; 7.12 | 40,000 | 10,000 | 50,000 |
| Waterwell, Pump & Line | | | 6.47 | 10,000 | 5,000 | 15,000 |
| Water Transport | | | 6.48; 7.17 | 10,000 | 5,000 | 15,000 |
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| Open Hole Log Service | | | 6.34 | 16,000 | | 16,000 |
| Cased Hole Log Service | | | 7.26 | | 10,000 | 10,000 |
| Perforating | | TCP + Tractor | 8.35; 7.35 | | 70,000 | 70,000 |
| Acid Stimulation | | | 7.01 | | | |
| Frac Stimulation | | | 7.16 | | 300,000 | 300,000 |
| Pump Truck & Nitrogen Service | | | 7.19 | | 3,000 | 3,000 |
| Transportation | | | 8.32; 7.32 | 5,000 | 3,000 | 8,000 |
| Contract Labor & Welding | | | 6.04; 7.07 | 1,500 | 1,500 | 3,000 |
| Tubular Inspection | | | 6.45; 7.34 | | | |
| Engineering & Wellsite Supervision | | Days @ \$900/day | 6.18; 7.10 | 27,000 | 7,200 | 34,200 |
| Abandonment | | | 6.55 | | | |
| Environmental, Disposal & Restoration | | | 6.58 | | 10,000 | 10,000 |
| Contingencies @ 5 % | | | 8.88; 7.88 | 45,200 | 24,300 | 69,500 |
| Subtotal: | | | | 949,500 | 508,600 | 1,458,100 |

LEASE & WELL EQUIPMENT

| Tubulars: | Size/Wt/Grade/Thd | Footage | Price | | | |
|--------------------------------------|-------------------|---------|----------------------|------------------|-----------|-----------|
| Conductor Pipe | | | ft @ \$ per ft | 3.03 | | |
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| Cementing & Float equipment | | | | 3.01; 4.41 | 4,000 | 2,000 |
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| Separator | | | | 4.28 | 7,500 | 7,500 |
| Heater-Treater | | | | 4.13 | | |
| Dehydrator/Line Heater | | | | 4.38 | | |
| Meters, Valves & Connections | | | | 4.34 | 3,000 | 3,000 |
| Installation | | | | 4.25 | 3,000 | 3,000 |
| Flowline & Connections | | | | 4.34; 4.10 | 1,000 | 1,000 |
| Gas Pipeline, Meter & Installation | | | | 4.18 | 133,500 | 133,500 |
| Subtotal: | | | | 54,200 | 359,400 | 413,600 |
| Grand Total: | | | | | 1,003,700 | 869,000 |
| | | | | | | 1,872,700 |

LCX ENERGY, LLC

Prepared By: Larry Gillette

DATE: 31-Aug-05

WORKING INTEREST PARTNER

agrees to participate for % W. I.

Approved By:

DATE: 9/1/05

Approved By:

DATE:

Title:

Title: