

**NADEL AND GUSSMAN PERMIAN, L.L.C.**  
**601 N. Marienfeld, Suite 508**  
**Midland, TX 79701**  
**Office: (432) 682-4429**  
**Fax: (432) 682-4325**

September 23, 2004

Via Certified Mail

TO: Artemis Fed Com #1 Working Interest Owners  
Address List Attached

FROM: Sam Jolliffe *Sam Jolliffe*  
Nadel and Gussman Permian, LLC

RE: Artemis Fed Com #1  
S/2 Section 33, T-22-S, R-28-E  
Eddy County, New Mexico

Nadel and Gussman Permian, LLC ("NGP"), as majority working interest owner under the captioned acreage, hereby proposes the drilling of the Artemis Fed Com #1. Said well will be drilled at a legal location in the SW/4 Section 33, and will be drilled to test the Morrow Formation at an approximate depth of 12, 850 feet. The S/2 Section 33 will be the designated spacing unit for the well. An AFE is enclosed for your evaluation.

If you elect to participate in this drilling proposal, please return an executed copy of the AFE to the undersigned at the captioned address. In the event you elect not to participate, NGP will consider a farm-in of your interest on terms acceptable to NGP.

Please advise if you have any questions. Thank you for your attention to this matter.

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER

3

**ADDRESS LIST**  
**ARTEMIS FED COM #1**

Unit Petroleum Company  
P.O. Box 702500  
Tulsa, OK 74170

Martha Rouse Schalk, Trustee of the Schalk Family Trust  
P.O. Box 25825  
Albuquerque, New Mexico 87125

Eastland Exploration, Inc.  
Eastland Resources, Inc.  
Spinnaker Oil & Gas, L.P.  
Robert R. Donnelly Children's trust  
G. Arthur Donnelly III Children's Trust  
Jan Donnelly O'Neill Children's Trust  
c/o Robert R. Donnelly  
P.O. Drawer 3488  
Midland, Texas 79702

**AUTHORITY FOR EXPENDITURE**  
**NADEL AND GUSSMAN PERMIAN, LLC MIDLAND, TX**

PROSPECT NAME: CYPRESS POINT FIELD: LOVING N. MORROW DATE: 09/16/04  
 LEASE/WELL NUMBER: ARTEMIS FED COM #1 PREPARED BY: JOSH FERNAU  
 LOCATION: SW 1/4, SEC 33 T22S & R28E  
 COUNTY, STATE: EDDY, NM DAYWORK CONTRACT - STRAIGHT WELL - LINED RESERVE PIT  
 PRIMARY OBJECTIVES: MORROW SINGLE SAND COMPLETION (ONE FRAC)  
 ATOKA

PROJECTED TOTAL DEPTH: 12,850'

| ASSUMES BLM APPROVES CSG PROGRAM, ASSUMES OCD ALLOWS RESERVE PIT |  |  |  | CASING<br>POINT     | COMPLETION<br>COSTS |
|--|--|--|--|---------------------|---------------------|
| <b>INTANGIBLE COSTS</b>  |  |  |  |                     |                     |
| LEGAL WORK/PERMITTING/SURVEY/STAKING                             |  |  |  | 4000                | 500                 |
| ROW  |  |  |  | 2000                | 500                 |
| SITE PREPARATION/CLEAN-UP  |  |  |  | 38000               | 60000               |
| RIG MOVES  |  |  |  | 40000               | 10000               |
| DRILLING TURN-KEY  |  |  |  | 0                   | 0                   |
| DRILLING DAYWORK   |  |  |  | 48 3 9000 /DAY      | 27000               |
| DRILLING FOOTAGE   |  |  |  | 0                   | 0                   |
| DRILL PIPE/TOOL RENTAL   |  |  |  | 1000 0 /DAY         | 0                   |
| BITS   |  |  |  | 70000               | 500                 |
| WATER  |  |  |  | 40500               | 5500                |
| DOWNHOLE MOTOR / MWD   |  |  |  | 0 5600 /DAY         | 0                   |
| MUD/CHEMICALS/PKR FLUID  |  |  |  | 90000               | 2000                |
| MUD LOGGING  |  |  |  | 32 DAYS @ 950 /DAY  | 0                   |
| OPEN HOLE LOGGING FORMATION EVALUATION                           |  |  |  | 42000               | 0                   |
| LINER HANGER   |  |  |  | 0                   | 0                   |
| DIESEL - 1000 hp rig   |  |  |  | 48 3 1100 /DAY      | 3300                |
| DST'S 1 @ \$4000/TEST  |  |  |  | 0                   | 0                   |
| WELDING  |  |  |  | 9000                | 5000                |
| CASING CREW/TOOLS  |  |  |  | 18000               | 4000                |
| CASING CEMENTING   |  |  |  | 52000               | 20000               |
| SQUEEZE CMTG/PLUGGING  |  |  |  | 15000               | -15000              |
| TRANSPORTATION   |  |  |  | 15000               | 2700                |
| RENTAL TOOLS/EQUIP   |  |  |  | 50000               | 3000                |
| COMPLETION RIG   |  |  |  | 25 DAYS @ 2000 /DAY | 50000               |
| PERFORATING/CASED HOLE LOGGING/CIBP/CMT                          |  |  |  | 0                   | 25000               |
| BREAKDOWN  |  |  |  | 0                   | 10000               |
| FRACTURING/STIMULATION   |  |  |  | 0                   | 100000              |
| FRAC TANKS/WATER TRANSPORTS                                      |  |  |  | 0                   | 8000                |
| PIT LINER / FENCE  |  |  |  | 9000                | 0                   |
| LABOR/ROUSTABOUT CREWS   |  |  |  | 15000               | 6500                |
| INSURANCE  |  |  |  | 20000               | 0                   |
| BOP TESTING - 3RD PARTY  |  |  |  | 5000                | 0                   |
| COLLAR INSPECTION/DAMAGES  |  |  |  | 14000               | 0                   |
| TREATING PACKER  |  |  |  | 0                   | 15000               |
| FIELD SUPERVISION  |  |  |  | 48 13 825 /DAY      | 10725               |
| ADMINISTRATIVE SERVICES/OVERHEAD                                 |  |  |  | 9950                | 3000                |
| CONTINGENCY  |  |  |  | 111325              | 35723               |
| <b>TOTAL INTANGIBLE COSTS</b>                                    |  |  |  | <b>1224575</b>      | <b>382848</b>       |

\*Note\* ALL PIPE PRICES ARE SUBJECT TO INCREASE DUE TO MARKET FLUCTUATION PARTNERS WILL BE BILLED FOR ACTUAL COST

| <b>TANGIBLE COSTS</b>            |                                     |            |           |                |                        |
|----------------------------------|-------------------------------------|------------|-----------|----------------|------------------------|
| 20"                              | CONDUCTOR                           | 60 FT @    | 40.25 /FT | 0              | Incl in location costs |
| 13-3/8"                          | SURFACE                             | 300 FT @   | 30.15 /FT | 9045           | 0                      |
| 9-5/8"                           | INTERMEDIATE                        | 6100 FT @  | 30.00 /FT | 183000         | 0                      |
| 7-0"                             | 2 nd INTERMEDIATE                   | 0 FT @     | 15.00 /FT | 0              | 0                      |
| 5 1/2"                           | PRODUCTION CASING                   | 12900 FT @ | 15.00 /FT | 0              | 193500                 |
| 2 7/8"                           | TUBING                              | 12750 FT @ | 6.00 /FT  | 0              | 76500                  |
|                                  | RODS                                | 0 FT @     | 0 /FT     | 0              | 0                      |
|                                  | FLOAT EQUIP, DV TOOL, ETC           |            |           | 8000           | 1500                   |
|                                  | CATTLEGUARDS/GATES                  |            |           | 3000           | 1500                   |
|                                  | WELLHEAD                            |            |           | 11000          | 7500                   |
|                                  | PACKER                              |            |           | 0              | 14000                  |
|                                  | DOWNHOLE PUMP/TAC                   |            |           | 0              | 0                      |
|                                  | FORKLIFT/PIPE RACKS                 |            |           | 2500           | 1500                   |
|                                  | STOCK TANKS/WATER TANKS             |            |           | 0              | 14000                  |
|                                  | SEPARATORS                          |            |           | 0              | 12000                  |
|                                  | GPU/TREATER                         |            |           | 0              | 12000                  |
|                                  | VALVES/FITTINGS                     |            |           | 0              | 9000                   |
|                                  | FLOWLINE                            |            |           | 0              | 15000                  |
|                                  | METER RUN, ETC.                     |            |           | 0              | 2500                   |
|                                  | MISCELLANEOUS (ROCK, FIREWALL, ETC) |            |           | 0              | 6000                   |
|                                  | CONTINGENCY                         |            |           | 2450           | 36650                  |
| <b>TOTAL TANGIBLE</b>            |                                     |            |           | <b>218995</b>  | <b>403150</b>          |
| <b>TOTAL TANGIBLE/INTANGIBLE</b> |                                     |            |           | <b>1443570</b> | <b>786098</b>          |

**TOTAL WELL COST** **2239868**

JOINT INTEREST APPROVAL \_\_\_\_\_  
 COMPANY: \_\_\_\_\_  
 BY: \_\_\_\_\_ DATE: \_\_\_\_/\_\_\_\_/\_\_\_\_

NADEL AND GUSSMAN  
 BY: *JL Fernau*  
 DATE: 09 / 16 / 04