

NADEL AND GUSSMAN HEYCO, LLC
500 N. Main Street, Suite One - P. O. Box 1936
Roswell, New Mexico 88202-1936
(575) 623-6601 – Fax (575) 627-2427

March 6, 2012

CERTIFIED MAIL

Iron Duke #2H Working Interest Owners
(See attached mailing list)

Re: **Iron Duke #2H**
Sec. 9, T-18S R-26E, N.M.P.M.
SHL: 2310' FSL & 330' FEL
BHL: 2310' FSL & 330' FWL
Eddy County, New Mexico

Ladies and Gentlemen:

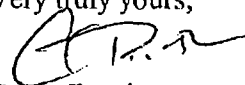
Nadel and Gussman HEYCO, LLC ("NGH") hereby proposes to drill the above captioned well. The Iron Duke #2H well has been staked and permitted at a location at 2310' FSL and 330' FEL, and will be drilled horizontally in the Yezo Formation to an approximate total measured depth of 6,950 feet. This well is to be located on a 160 acre spacing unit in the N/2S/2.

Enclosed is a worksheet stating your approximate working interest in the pro-ration unit of the well. In the event that you elect to participate in the captioned proposed well, please execute one copy of the AFE and return to the undersigned. A Joint Operating Agreement designating NGH as the operator is being prepared for this well and pro-ration unit, and will be sent to you upon your decision to participate for signature.

In the event you elect not to participate in the captioned well, NGH would like to negotiate an Oil and Gas Lease or a Term Assignment of your interest.

Should you have any questions regarding this proposal please contact Gordon Yahney at (575) 623-6601 or Michael Matteucci at (432) 682-4429 for any geologic information, JJ McGlasson at (575) 623-6601 for any engineering concerns, and me for land concerns.

Very truly yours,


Colby Booth
Landman

CSB
Enclosures
IronDuke#2Hproposal.doc/Land:IronDuke

Oil Conservation Division
Case No. _____
Exhibit No. 3

IRON DUKE #2H

Nadel and Gussman HEYCO, LLC
PO Box 1936
Roswell, New Mexico 88202

Carolyn Holmstrom
Trustee of the John A. Holmstrom 2004 Trust
2925 Somerset Place
San Marino, California 91108

COG Operating LLC
500 W. Texas, Suite 100
Midland, Texas 79701

Willis Edward Morgan, Jr.
2635 Northgate Avenue
Cumming, Georgia 30041

EHW LLC
101 S. 4th Street
Artesia, New Mexico 88210

Betty Jo Highsmith
8773 E. Via De Dorado
Scottsdale, Arizona 85258

B&G Royalties
PO Box 376
Artesia, New Mexico 88211

Ocotillo Production LLC
1705 W. Washington Avenue
Artesia, New Mexico 88210

William C. White
15 Desert Flower Road
Artesia, New Mexico 88210

Concho Oil & Gas LLC
550 W. Texas, Suite 100
Midland, Texas 79701

Lita Gravatt
427 4th Street West
Sonoma, California 95477

Angelita Dorado
3663 Spyglass Court
Castro Valley, California 94546

John M. Torres, Jr.
1004 Drake Avenue
Burlingame, California 94010-4913

Scott Allen Gutierrez
1014 Washington
Artesia, New Mexico 88210

Steven John Gutierrez
7 Robin Road
Artesia, New Mexico 88210

The Josephine Garcia Revocable Trust
2088 Arbutus Court
Fremont, California 94528

Sam Torres, Jr.
16 Wind Jammer Place
Daly City, California 94014

Yates Petroleum Corporation
105 S. Fourth Street
Artesia, New Mexico 88210

Lila Torres
320 55th Street NW
Albuquerque, New Mexico 87105

Sofia Navarette
14522 Wilson Street
Midway City, California 92655

Dave Torres, Jr.
Route 1, Box 118
Artesia, New Mexico 88210

Myco Industries, Inc.
105 S. Fourth Street
Artesia, New Mexico 88210

ABO Petroleum Corporation
105 S. Fourth Street
Artesia, New Mexico 88210

OXY Y-1
Attn: Permian Basin – Land Manager
PO Box 4294
Houston, Texas 77210-4294

Iron Duke #2H

Section: 9

T-18 S, R-26 E (N/2S/2)

SHL: 2310' FSL & 330' FEL

BHL: 2310' FSL & 330' FWL

Completed Drill Costs

\$3,136,846.00

Working Interest Owner	Working Interest	Completed Cost
Nadel and Gussman HEYCO, LLC	0.5831	\$1,829,193.38
Yates Petroleum Corporation	0.0125	\$39,210.58
OXY Y-1	0.0018	\$5,600.84
MYCO, Industries, Inc.	0.0018	\$5,600.84
ABO Petroleum Corporation	0.0018	\$5,600.84
Lila Torres	0.0179	\$56,015.25
Sofia Navarette	0.0179	\$56,015.25
Dave Torres, Jr.	0.0179	\$56,015.25
Sam Torres, Jr.	0.0179	\$56,015.25
The Josephine Garcia Revocable Trust	0.0179	\$56,015.25
Lita Gravatt	0.0179	\$56,015.25
Angelita Dorado	0.0179	\$56,015.25
John M. Torres, Jr.	0.0089	\$28,007.55
Steven John Gutierrez	0.0036	\$11,203.02
Scott Allen Gutierrez	0.0036	\$11,203.02
Carolyn Holmstrom, Trustee of John A. Holstrom	0.1107	\$347,192.49
COG Operating LLC	0.0760	\$238,400.30
Willis Edward Morgan, Jr.	0.0196	\$61,586.74
EHW LLC	0.0160	\$50,189.54
Betty Jo Highsmith	0.0156	\$49,013.22
B & G Royalties	0.0053	\$16,729.85
Octillo Production LLC	0.0053	\$16,729.85
William C. White	0.0053	\$16,729.85
Concho Oil & Gas LLC	0.0040	\$12,547.38
Total	1.0000	\$3,136,846.00

AUTHORITY FOR EXPENDITURE

NADEL AND GUSSMAN HEYCO, LLC

Date: 2/8/2012

Prepared By: Jason Goss

Prospect Name: Dayton Prospect

County, State: Eddy County, New Mexico

Projected Total Depth: 6950' MD 2,600' TVD 3,000' pilot hole

Lease / Well Number: Iron Duke #2H

Location: Sec. 9 - T18S - R26E

SHL: 2310' FSL, 330' FEL

BHL: 2310' FSL, 330' FWL

Primary Objectives: Yeso

NOTES

Daywork Contract - Horiz Oil Well - Closed Loop Mud System- Moyno Art Lift
Assumes Packers Plus OH Completion, w/ pilot hole, use Frac pit in section 16
Assumes regulatory agent approves casing program
Casing prices based on direct purchase for this well.

It is recognized that the amounts provided here are estimates only and approval of this authorization shall extend to actual costs incurred in conducting the operations specified, whether more or less than estimated.

920-000 Intan. Drilling Costs BCP	COSTS
951-000 Abandonment & Cleanup	\$ 30,000
920-009 Abstracts & Title Opinions	\$ -
920-009 Well Control Insurance 6950' MD \$/Ft: 0.684	\$ 4,754
921-000 Legal, Permits & Fees	+
921-000 Staking Location & Surveys	\$ 1,250
921-001 Location, Road & ROW	\$ 100,000
921-003 IDC Daywork Days: 17 \$/Day: 17000	\$ 289,000
921-003 Mobilization / Demobilization	\$ 85,000
921-003 Rig Fuel Days: 17 \$/Day: 3000	\$ 51,000
921-002 IDC Footage \$/Ft:	\$ -
922-001 Supervision Days: 17 \$/Day: 650	\$ 11,050
922-001 Drilling Overhead (Administrative Services)	\$ 10,000
922-004 Bits & Reamers	\$ 28,180
922-000 Rentals Surface	\$ 65,000
922-000 Rentals Sub-Surface	\$ 15,000
922-000 Drill Pipe / Motors Days: 10 \$/Day: 1800	\$ 18,000
922-000 Directional Drilling Expense Days: 10 \$/Day: 12500	\$ 125,000
921-008 Inspection - Drill String	\$ 10,000
921-008 Well Control & Testing	\$ 5,000
921-008 Miscellaneous IDC	\$ 5,000
921-008 Mud Logging Days: 11 \$/Day: \$ 2,580	\$ 28,375
922-003 Contract Labor	\$ 8,000
922-002 Transportation	\$ 30,000
921-004 Surface Casing Crews	\$ 4,500
921-004 Surface Cement and Cement Services & possible 1"	\$ 30,000
921-004 Surface Float Equipment & Centralizers	\$ 2,000
921-007 Intermediate Casing Crews	\$ 6,500
921-007 Intermediate Cement and Kick off Plug	\$ 30,000
921-007 Intermediate Float Equipment & Centralizers	\$ 5,000
921-005 Mud & Additives	\$ 55,000
921-011 Corrosion Control & Chem.	\$ 5,000
921-010 Water	\$ 15,664
921-010 Water / Mud Disposal	\$ 80,000
Contingency (5%)	\$ 57,664
TOTAL	\$ 1,210,936

923-000 Intan. Formation Testing BCP	COSTS
923-003 Logging & Wireline	\$ 35,000
923-003 Drill Stem - Formation Tests	\$ -
923-001 Coring & Analysis (Sidewall Cores)	\$ 10,000
Contingency (5%)	\$ 2,250
TOTAL	\$ 47,250

930-000 Tangible Lease & Well Equipment BCP	COSTS
930-001 Surface Casing 9-5/8" \$/Ft: 26 Feet: 1000	\$ 26,000
930-002 Intermediate Csg 7" 26# \$/Ft: 28 Feet: 2900	\$ 79,750
" \$/Ft: Feet:	\$ -
" \$/Ft: Feet:	\$ -
930-009 Wellhead	\$ 9,000
931-003 Cattle Guards	\$ -
Contingency (5%)	\$ 5,738
TOTAL EQUIPMENT	\$ 120,488

TOTAL DRILLING	\$ 1,378,873
TOTAL INTANGIBLE	\$ 2,418,541

924-000 Intan. Comp. Costs ACP	COSTS
951-000 Abandonment & Cleanup	\$ (30,000)
921-003 Daywork Days: 2 \$/Day: 17000	\$ 34,000
921-003 Rig Fuel Days: 2 \$/Day: 3000	\$ 6,000
924-008 Drilling Rig Supervision Days: 2 \$/Day: 650	\$ 1,300
924-004 Production Casing Crews	\$ 15,000
924-004 Production Casing Cement & Services	\$ -
924-004 Prod. Float Equipment & Centralizers	\$ -
924-001 Completion / Swab Unit Days: 10 \$/Day: 3000	\$ 30,000
924-008 Compl. Rig Supervision Days: 12 \$/Day: 650	\$ 7,800
924-008 Administrative Services	\$ -
924-003 Mud & Chemicals	\$ 2,400
924-003 Water	\$ 15,000
924-005 Logging, Perforations & Wireline	\$ -
924-006 Rentals Subsurface	\$ -
924-006 Rentals Surface	\$ 20,000
924-006 Nitrogen Service & Coiled Tubing Days: 2 \$/Day: 28000	\$ 56,000
924-006 Fishing	\$ -
924-007 Stimulation	\$ 900,000
924-007 Transportation	\$ 8,000
924-009 Contract Labor & Roustabout	\$ 12,000
925-001 Bits & Reamers	\$ -
925-001 Couplings & Fittings	\$ 9,500
925-003 Location & Road Expense	\$ 10,000
925-003 Miscellaneous IDC	\$ -
925-003 Pipe Inspection & Recondition	\$ -
925-003 Pumping Services (Kill Truck)	\$ 6,000
925-003 Testing	\$ -
925-003 Well Control Insurance Days: 6 \$/Day: 350	\$ 2,100
Contingency (5%)	\$ 55,255
TOTAL	\$ 1,160,355

930-000 Tangible Well Equipment ACP	COSTS
930-003 Prod. Csg / Liners 4.5" \$/Ft: 13.5 Feet: 4400	\$ 59,400
" \$/Ft: Feet:	\$ -
930-004 Tubing 2-7/8" \$/Ft: 6.5 Feet: 2800	\$ 14,950
930-009 Wellhead	\$ 2,500
931-000 Rods & Pump, Moyno	\$ 65,000
931-000 Subsurface Equipment	\$ 300,000
Contingency (5%)	\$ 22,093
TOTAL EQUIPMENT	\$ 483,943

940-000 Tangible Lease & Battery Equipment ACP	COSTS
940-001 Pumping Units & Engines	\$ -
940-002 Gas Processing & Dehy	\$ -
940-002 Heaters, Treators & Separators	\$ 20,000
940-005 Tanks & Accessory Equipment	\$ 90,000
941-001 Pipeline	\$ -
941-001 Flowline	\$ 2,500
941-001 Controllable Valves	\$ 9,000
941-001 Misc. Controllable Equipment	\$ 6,000
Contingency (5%)	\$ 6,375
TOTAL EQUIPMENT	\$ 133,875

TOTAL COMPLETION	\$ 1,758,173
TOTAL TANGIBLE	\$ 718,305

Joint Interest Approval

Company:

Company: Nadel and Gussman Heyco, LLC

By: _____ Date: _____

By: Jason Goss

Date: 2/8/2012

TOTAL DRY HOLE COST	\$ 1,422,038
TOTAL WELL COST	\$ 3,136,846