

CHESAPEAKE OPERATING, INC.

AUTHORIZATION FOR EXPENDITURE

Project Area: New Mexico Well Name: Burrus 26 #2 Operator: Chesapeake Operating, Inc. AFE #: 102289 Spacing Unit: SW/4 NW/4 Section 26-12S-38E			County, State: Lea, New Mexico Date: 03/19/04 Total Depth: 9,800' Formation: Wolfcamp/Harris Property #: 819507	
CODE	INTANGIBLE COSTS	WORK DESCRIPTION	DRY HOLE	PRODUCER
233400	Location:	Roads, Location, Plts	\$35,000.00	\$35,000.00
233401		Damages	\$12,000.00	\$12,000.00
233402		Governmental Filings	\$2,000.00	\$2,000.00
233404		Seismic Costs	\$0.00	\$0.00
233405		Reclamation	\$10,000.00	\$10,000.00
233406	Drilling:	Top Drive	\$0.00	\$0.00
233408		Pipeline Construction	\$0.00	\$0.00
233409		Fuel	\$0.00	\$0.00
233410		Drilling Contractor: footage @ \$19.5 per ft	\$191,000.00	\$214,000.00
233411		Directional Services	\$3,000.00	\$3,000.00
233413		Rig Mobilization/Demobilization	\$0.00	\$0.00
233414		Contract Labor	\$13,000.00	\$25,000.00
233415		Bits	\$0.00	\$0.00
233416		Supplies and Utilities	\$2,000.00	\$3,000.00
233426		Cement Conductor	\$0.00	\$0.00
233417		Cement Surface Casing	\$8,000.00	\$8,000.00
233420		Cement Intermediate Casing	\$15,000.00	\$15,000.00
233424		Cement Production Casing	\$0.00	\$20,000.00
233425		Cement Drilling Liner	\$0.00	\$0.00
233452		Cement Production Liner	\$0.00	\$0.00
233418		Mud Logging	\$9,000.00	\$9,000.00
233419		Drilling Fluids, Mud, Chem.	\$16,000.00	\$18,000.00
233421		Drill String Inspection	\$3,000.00	\$3,000.00
233423		Open Hole Logging	\$25,000.00	\$25,000.00
233427		Fishing	\$0.00	\$0.00
233428		Downhole Rental Equipment	\$3,000.00	\$6,000.00
233430	Completion:	Completion Unit	\$0.00	\$20,000.00
233431		Cased Hole Logging/Perforating	\$0.00	\$15,000.00
233433		Jetting	\$0.00	\$0.00
233434		Formation Stimulation	\$0.00	\$30,000.00
233437	General:	Surface Equipment Rental	\$13,000.00	\$16,000.00
233438		Transportation	\$3,000.00	\$5,000.00
233441		Frac Fluid Hauloff	\$0.00	\$1,000.00
233442		Blowout/Emergencies	\$0.00	\$0.00
233443		Company Supervision/Engineering	\$28,000.00	\$31,000.00
233444		Consultants	\$17,000.00	\$19,000.00
233446		Company Overhead	\$9,000.00	\$10,000.00
233447		Insurance	\$10,000.00	\$10,000.00
233449		Major Construction Overhead	\$0.00	\$2,000.00
233450		Plug to Abandon	\$0.00	\$0.00
		10% Contingency	\$43,000.00	\$57,000.00
TOTAL	INTANGIBLES	Total Intangible Costs	\$470,000.00	\$624,000.00
CODE	TANGIBLE COSTS	WORK DESCRIPTION		
230108	Tubulars:	Conductor:	\$0.00	\$0.00
230100		Surface Casing: 13-3/8" 430'	\$7,000.00	\$7,000.00
230101		Intermediate Casing: 8-5/8" 4,000'	\$33,000.00	\$33,000.00
230102		Production Casing: 5-1/2" 9,800'	\$0.00	\$64,000.00
230103		Drilling Liner:	\$0.00	\$0.00
230109		Production Liner:	\$0.00	\$0.00
230104		Float Equipment	\$3,000.00	\$7,000.00
230105		Tubing: 2-3/8" 9,600'	\$0.00	\$28,000.00
230106	Lease Equipment:	Wellhead Equipment	\$7,000.00	\$22,000.00
230107		Downhole Equipment	\$0.00	\$15,000.00
230111		Artificial Lift-Pumping Unit	\$0.00	\$60,000.00
230113		Production Equipment	\$0.00	\$35,000.00
230115		Compressor/Compression	\$0.00	\$0.00
230116		Pipeline Equipment	\$0.00	\$0.00
230120		Non-Controllable Equipment	\$0.00	\$0.00
		10% Contingency	\$5,000.00	\$27,000.00
TOTAL	TANGIBLES	Total Tangible Costs	\$55,000.00	\$298,000.00
		Total Costs	\$525,000.00	\$922,000.00

Prepared by: TD

Approved by: SAB

OPERATOR'S APPROVAL: [Signature]
Operations/Geology

DATE: 3-25-04

OPERATOR'S APPROVAL: [Signature]
Land/Accounting

DATE: 3/24/04

NON-OPERATOR'S APPROVAL: _____ DATE: _____

The costs on this AFE are estimates only and may not be construed as ceilings on any specific item or the total cost of the project. In executing this AFE, the participant agrees to pay its proportionate share of actual costs incurred, including legal, curative, regulatory, brokerage and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well. The operator may contract with an affiliated entity to drill the well at prevailing rates in the area. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides operator a certificate evidencing its own insurance in amounts acceptable to the operator by the date of spud.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 13280 Exhibit No. 3
Submitted By:
Chesapeake Inc.
Hearing Date: July 8, 2004