



March 22, 2012

David L. and Tracy Menefee
P.O.Box 1092
Carlsbad, NM 88220

*U.S. Certified Mail
Return Receipt Requested*

RE: New Well Proposal (REVISED BHL)
Falabella "31" Fee #7H
SL: 150' FSL & 1700' FEL (Unit O) of Section 31, T18S, R26E
BHL: 330' FNL & 1700' FEL (Unit B) of Section 31, T18S, R26E
Eddy County, New Mexico

Dear Sirs:

COG Operating LLC ("COG") proposes to drill the Falabella "31" Fee #7H at the captioned location, or at an approved surface location within Unit Location O, with a landing point of the lateral at approximately 2405' TVD, 7100' MD, to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$4,096,000 and a detailed description of such cost is set out in the enclosed Authority for Expenditure ("AFE"). These costs include the drilling of a pilot hole which may be determined at a later date to be unnecessary.

Also enclosed is COG's proposed form of Operating Agreement ("OA"). A completed version of the Exhibit "A" to be incorporated into the OA will follow under separate cover, accompanied by a fully executed set of signature pages.

The subject well is set for a tentative date of April 26th, 2012 for Compulsory Pooling hearing in front of the NMOCD.

In lieu of participating in the proposed well, COG is prepared to assume all of your working interest in the drilling unit pursuant to an oil and gas lease between you, as lessor, and COG, as lessee. In consideration for your execution and delivery to COG of an oil and gas lease providing for a three year primary term and a 3/16th royalty on allocated production, COG would tender to you a bonus payment in the amount of \$800 per net mineral acre leased. If you wish to discuss, please contact me at sjohnson@concho.com if it is your desire to lease your interest or at the undersigned 432-818-2230.

If you elect to participate in the subject well, please sign and return a copy of the AFE to the below letterhead address.

If you desire to receive well information regarding the subject operations please return a Well Information Requirements list to COG. Technical questions should be directed to Carl Bird at 432-683-7443 and land questions to the undersigned at 432-818-2230.

Yours truly,

COG Operating LLC

Sean Johnson
Landman

Enclosure (s)

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 3
Submitted by:
COG OPERATING LLC
Hearing Date: April 26, 2012

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: FALABELLA 31 FEE #7H
Surf. 150' FSL, 1700' FEL, Section 31
BHL. 330' FNL, 1700' FEL, Section 31
T18S, R26E PILOT HOLE DEPTH = 4050'

PROSPECT NAME: LAKEWOOD
COUNTY & STATE: Eddy Co. NM
OBJECTIVE: 7100' MD, (2405' TVD) Yeso Test

INTANGIBLE COSTS		BCP	ACP	TOTAL
Title/Curative/Permit	201	10,000		10,000
Insurance	202	22,000	302	22,000
Damages/Right of Way	203	15,000	303	15,000
Survey/Stake Location	204	3,000	304	3,000
Location/Pits/Road Expense	205	40,000	305	55,000
Drilling / Completion Overhead	206	5,000	306	6,000
Turnkey Contract	207		307	0
Footage Contract	208		308	0
Daywork Contract 19:3 @ \$14000/day	209	266,000	309	308,000
Directional Drilling Services	210	165,000	310	165,000
Fuel & Power	211	56,525	311	65,450
Water	212	20,000	312	80,000
Bits	213	40,000	313	41,000
Mud & Chemicals	214	35,000	314	35,000
Drill Stem Test	215		315	0
Coring & Analysis	216			0
Cement Surface	217	50,000		50,000
Cement Intermediate	218			0
Cement Production 5-1/2"	218		319	25,000
Cement Squeeze & Other (Kickoff Plug)	220	40,000	320	40,000
Float Equipment & Centralizers	221	2,000	321	27,000
Casing Crews & Equipment	222	5,000	322	17,000
Fishing Tools & Service	223		323	0
Geologic/Engineering	224	10,000	324	11,000
Contract Labor	225	10,000	325	31,000
Company Supervision	226	2,000	326	4,000
Contract Supervision	227	30,400	327	35,200
Testing Casing/Tubing	228	2,500	328	14,500
Mud Logging Unit	229	15,000	329	15,000
Logging	230	15,000	330	15,000
Perforating/Wireline Services	231	3,500	331	3,500
Stimulation/Treating			332	1,500,000
Completion Unit			333	24,000
Swabbing Unit			334	0
Rentals-Surface	235	30,000	335	105,000
Rentals-Subsurface	236	40,000	336	50,000
Trucking/Forklift/Rig Mobilization	237	45,000	337	65,000
Welding Services	238	5,000	338	7,500
Water Disposal	239		339	15,000
Plug to Abandon	240		340	0
Seismic Analysis	241		341	
Closed Loop & Environmental	244	100,000	344	100,000
Miscellaneous	242	5,000	342	6,000
Contingency	243	109,075	343	297,850
TOTAL INTANGIBLES		1,197,000	2,067,000	3,264,000

TANGIBLE COSTS				
Surface Casing 8 5/8" 32#	401	23,850		23,850
Intermediate Casing	402		503	0
Production Casing/Liner 5 1/2" 17# x 7" 26#			503	151,100
Tubing 2600' 2 7/8"			504	19,000
Wellhead Equipment	405	8,000	505	23,000
Pumping Unit			506	40,000
Prime Mover			507	20,000
Rods			508	0
Pumps			509	10,000
Tanks			510	27,825
Flowlines			511	5,000
Heater Treater/Separator			512	48,500
Electrical System			513	2,500
Packers/Anchors/Hangers	414		514	310,000
Couplings/Fittings/Valves	415	2,500	515	47,750
Gas Compressors/Meters			516	4,000
Dehydrator			517	0
Injection Plant/CO2 Equipment			518	0
Miscellaneous	419	1,000	519	22,000
Contingency	420	4,650	520	77,475
TOTAL TANGIBLES		40,000	792,000	832,000
TOTAL WELL COSTS		1,237,000	2,859,000	4,096,000

COG Operating LLC

By: J. Coffman / C. Bird / C. Elliott

Date Prepared: 03/06/2012

We approve:
_____% Working Interest

Company:

By:

Printed Name:

Title:

Date:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.