



January 3, 2013

U.S. Certified Mail
Return Receipt Requested
91 7108 2133 3939 1186 0911

Mark K Nearburg
710 Dragon
Austin, TX 78734

Attn: Mark K Nearburg

Re: **Well Proposal – Falabella 31 Fee #6H**
T18S, R26E, E2, W2 of Section 31
SHL: 150' FSL & 2260' FWL, or a legal location in Unit N
BHL: 330' FNL & 2310' FWL, or a legal location in Unit C
Eddy County, New Mexico

Dear Mr. Nearburg,

COG Operating LLC (COG), as Operator, proposes to drill the Falabella 31 Fee #6H well as a horizontal well at the above-captioned location to a TVD of approximately 3000' and a MD of 7415' to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$3,292,000 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE"). COG anticipates that it will spud the well on or before January 21, 2013.

COG is proposing to drill this well under the terms of the modified 1989 AAPL form of Operating Agreement which is enclosed for your review and approval. The Operating Agreement covers (description of lands insert). It has the following general provisions:

- 200/500 Non-consenting penalty
- \$5,450.00/\$540.00 Drilling and Producing rate
- COG named as Operator

Corporate Address: One Concho Center 600 West Illinois Avenue Midland, Texas 79701 PHONE 432.683.7443 FAX 432.683.7441

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 3
Submitted by:
COG OPERATING LLC
Hearing Date: March 21, 2013



If you do not wish to participate in the Operation, COG would like to acquire a Term Assignment of your leasehold for the following general terms:

- 18 month primary term
- Delivering a 75% NRI, proportionately reduced
- \$1000.00 per net acre bonus consideration

This Term Assignment offer is subject to the approval of COG's management and verification of title.

If you have any questions, please do not hesitate to contact the undersigned at 432-221-0333.

Respectfully,

A handwritten signature in black ink, appearing to read "Katie Mohebkhosravi", written over the word "Respectfully,".

Katayoun "Katie" Mohebkhosravi

Landman

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: FALABELLA 31 FEE #6H	PROSPECT NAME: SPRINGFIELD 1826 717029
SHL: 150' FSL & 2260' FWL UL-N	STATE & COUNTY: New Mexico, Eddy
BHL: 330' FNL & 2310' FWL UL-C	OBJECTIVE: SH9 Yeso Horizontal
FORMATION: Glorieta Yeso	DEPTH: 7,415
LEGAL: SEC31 T18S-R26E API#: 30-015-40211	TVD: 3,000

INTANGIBLE COSTS		BCP	ACP	TOTAL
Title/Curative/Permit	201	10,000		10,000
Insurance	202	22,000	0	22,000
Damages/Right of Way	203	50,000	0	50,000
Survey/Stake Location	204	3,000	0	3,000
Location/Pits/Road Expense	205	60,000	25,000	85,000
Drilling / Completion Overhead	206	2,500	2,000	4,500
Turnkey Contract	207			0
Footage Contract	208			0
Daywork Contract (0 days /spud-ris @ \$0)	209	185,000	45,000	210,000
Directional Drilling Services (0 dir days @ \$0)	210	190,000		190,000
Fuel & Power	211	42,000	12,000	54,000
Water	212	29,000	100,000	129,000
Bits	213	27,000	5,000	32,000
Mud & Chemicals	214	24,000	0	24,000
Drill Stem Test	215		0	0
Coring & Analysis	216			0
Cement Surface	217	48,000		48,000
Cement Intermediate	218	0		0
Cement 2nd Intermediate/Production	218	0	65,000	65,000
Cement Squeeze & Other (Kickoff Plug)	220		0	0
Float Equipment & Centralizers	221	2,000	30,000	32,000
Casing Crews & Equipment	222	5,000	12,000	17,000
Fishing Tools & Service	223			0
Geologic/Engineering	224	10,000		10,000
Contract Labor	225	20,000	21,000	41,000
Company Supervision	226	2,000	2,000	4,000
Contract Supervision	227	19,000	20,000	39,000
Testing Casing/Tubing	228	3,000	12,000	15,000
Mud Logging Unit (logging /24 days)	229	10,000		10,000
Logging	230	10,000		10,000
Perforating/Wireline Services	231	3,500	60,000	63,500
Stimulation/Treating			750,000	750,000
Completion Unit			30,000	30,000
Swabbing Unit				0
Rentals-Surface	235	18,000	250,000	268,000
Rentals-Subsurface	236	32,000	75,000	107,000
Trucking/Forklift/Rig Mobilization	237	43,000	20,000	63,000
Welding Services	238	5,000	2,500	7,500
Water Disposal	239	0	40,000	40,000
Plug to Abandon	240	0	0	0
Seismic Analysis	241	0	0	0
Closed Loop & Environmental	244	83,000	0	83,000
Miscellaneous	242	0	0	0
Contingency 10%	243	94,000	167,500	261,500
TOTAL INTANGIBLES		1,032,000	1,726,000	2,758,000
TANGIBLE COSTS				
Surface Casing (8 5/8" 32# J55 LTC)	401	28,000		28,000
Intermediate Casing(2150' 8 5/8" 32# J55 LTC)	402	0	0	0
Production Casing (5 1/2" 17# L80)			122,000	122,000
Tubing			22,000	22,000
Wellhead Equipment	405	6,000	20,000	26,000
Pumping Unit			60,000	60,000
Prime Mover			20,000	20,000
Rods			12,000	12,000
Pumps			70,000	70,000
Tanks			21,000	21,000
Flowlines			8,000	8,000
Heater Treater/Separator			30,000	30,000
Electrical System			20,000	20,000
Packers/Anchors/Hangers	414	0	2,600	2,600
Couplings/Fittings/Valves	415	500	60,000	60,500
Gas Compressors/Meters			5,000	5,000
Dehydrator				0
Injection Plant/CO2 Equipment				0
Miscellaneous	419	500	500	1,000
Contingency	420	2,000	24,000	26,000
TOTAL TANGIBLES		37,000	497,000	534,000
TOTAL WELL COSTS		1,069,000	2,223,000	3,292,000

COG Operating LLC

By: Carl Bird

Date Prepared: 12/21/2012

JJ

COG Operating LLC

We approve:

_____% Working Interest 1.8711595%

By: _____

Company:

By: Mark E. Nearberg

Printed Name:

Title: Mark E. NearbergDate: January 17, 2013

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