



May 25, 2012

**U.S. Certified Mail
Return Receipt Requested**

Floyd Energy, Ltd
P.O. Box 52107
Midland, TX 79710

RE: **New Well Proposal**
Grant 2 Fee #3H
SL: 330' FSL & 1910' FEL (Unit O) of Section 2, T19S, R26E
BHL: 330' FNL & 2260' FEL (Lot 2) of Section 2, T19S, R26E
Eddy County, New Mexico

Dear Madam or Sir:

COG Operating LLC ("COG") proposes to drill the Grant 2 Fee #3H at the captioned location, or at an approved surface location within Unit Location O, to a depth of approximately 3000' TVD, 7415' MD, to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$3,974,000 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.

If you elect to participate in the subject well, please sign and return a copy of the AFE to the below letterhead address. 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, if you choose to participate. COG will carry Worker's Comp insurance for all non-operators as is required by law; however, you will be responsible for any additional coverage you deem may be necessary. Please provide a copy of your insurance certificate.

If you elect not to participate in the well, COG would be willing to lease your minerals or take a term assignment of your leasehold. Please contact the undersigned if you are interested in receiving an offer.

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 Chad Elliot at 432-818-2338 and land questions to the undersigned at 432-685-4354.

Yours truly,

COG Operating, LLC

Stuart A. Dirks, CPL
Senior Landman

Enclosure (s)

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: BRADLEY 8 FEE #2H	PROSPECT NAME: LAKEWOOD
SHL: 150' FSL & 1700' FWL UL-N	STATE & COUNTY: New Mexico, Eddy
BHL: 330' FNL & 1700' FWL UL-C	OBJECTIVE: SH6 7415' MD, (3000' TVD) Yeso Tes
FORMATION: Glorieta Yeso	DEPTH: 7,383
LEGAL: SEC8 T19S-R26E API#: 30-015-39811	TVD:

INTANGIBLE COSTS		BCP		ACP		TOTAL
Title/Curative/Permit	201	10,000				10,000
Insurance	202	22,000	302	0		22,000
Damages/Right of Way	203	15,000	303	0		15,000
Survey/Stake Location	204	3,000	304	0		3,000
Location/Pits/Road Expense	205	50,000	305	15,000		65,000
Drilling / Completion Overhead	206	5,000	306	1,000		6,000
Turnkey Contract	207	0	307	0		0
Footage Contract	208	0	308	0		0
Daywork Contract (0 days f/spud-ris @ \$0)	209	266,000	309	42,000		308,000
Directional Drilling Services (0 dir days @ \$0)	210	165,000	310	0		165,000
Fuel & Power	211	57,000	311	9,000		66,000
Water	212	28,500	312	60,000		88,500
Bits	213	40,000	313	5,000		45,000
Mud & Chemicals	214	35,000	314	0		35,000
Drill Stem Test	215	0	315	0		0
Coring & Analysis	216	0				0
Cement Surface	217	50,000				50,000
Cement Intermediate	218	0				0
Cement 2nd Intermediate 7"	218	0	319	25,000		25,000
Cement Squeeze & Other (Kickoff Plug)	220	40,000	320	0		40,000
Float Equipment & Centralizers	221	2,000	321	25,000		27,000
Casing Crews & Equipment	222	5,000	322	12,000		17,000
Fishing Tools & Service	223	0	323	0		0
Geologic/Engineering	224	10,000	324	1,000		11,000
Contract Labor	225	20,000	325	21,000		41,000
Company Supervision	226	2,000	326	2,000		4,000
Contract Supervision	227	30,400	327	4,800		35,200
Testing Casing/Tubing	228	2,500	328	12,000		14,500
Mud Logging Unit (logging f/24 days)	229	23,750	329	0		23,750
Logging	230	25,000	330	0		25,000
Perforating/Wireline Services	231	3,500	331	0		3,500
Stimulation/Treating			332	1,300,000		1,300,000
Completion Unit			333	24,000		24,000
Swabbing Unit			334	0		0
Rentals-Surface	235	32,300	335	75,000		107,300
Rentals-Subsurface	236	49,400	336	10,000		59,400
Trucking/Forklift/Rig Mobilization	237	45,000	337	20,000		65,000
Welding Services	238	5,000	338	2,500		7,500
Water Disposal	239	0	339	15,000		15,000
Plug to Abandon	240	0	340	0		0
Seismic Analysis	241	0	341	0		0
Closed Loop & Environmental	244	88,000	344	0		88,000
Miscellaneous	242	5,000	342	1,000		6,000
Contingency	243	114,650	343	169,700		284,350
TOTAL INTANGIBLES		1,250,000		1,852,000		3,102,000

TANGIBLE COSTS						
Surface Casing (655' 13 3/8" 54.5# J55 STC)	401	35,000				35,000
Intermediate Casing(4050' 9 5/8" 36#/40# J55 BUTT)	402	0	503	0		0
Production Casing (13,450' 5 1/2" 17# N80/P110)			503	150,000		150,000
Tubing			504	16,000		16,000
Wellhead Equipment	405	5,000	505	15,000		20,000
Pumping Unit			506	40,000		40,000
Prime Mover			507	20,000		20,000
Rods			508	12,000		12,000
Pumps			509	10,000		10,000
Tanks			510	21,000		21,000
Flowlines			511	8,000		8,000
Heater Treater/Separator			512	30,000		30,000
Electrical System			513	11,250		11,250
Packers/Anchors/Hangers	414	0	514	335,000		335,000
Couplings/Fittings/Valves	415	2,500	515	45,000		47,500
Gas Compressors/Meters			516	14,500		14,500
Dehydrator			517	0		0
Injection Plant/CO2 Equipment			518	0		0
Miscellaneous	419	1,000	519	20,000		21,000
Contingency	420	5,500	520	75,250		80,750
TOTAL TANGIBLES		49,000		823,000		872,000
TOTAL WELL COSTS		1,299,000		2,675,000		3,974,000

COG Operating LLC

Date Prepared: 4/20/12 JJ

We approve:
_____% Working Interest

COG Operating LLC

By: Chad Elliott

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.