

May 1, 2012

*U.S. Certified Mail
Return Receipt Requested*

Address
Address
Address

RE: *New Well Proposal*
Clydesdale "1" Fee #4H
SL: 2260' FNL & 150' FEL (Unit H) of Section 1, T19S, R25E
BHL: 2260' FNL & 330' FWL (Unit E) of Section 1, T19S, R25E
Eddy County, New Mexico

copy

Dear Madam or Sir:

COG Operating LLC ("COG") proposes to drill the Clydesdale "1" Fee #4H at the captioned location, or at an approved surface location within Unit Location H, to a depth of approximately 3000' TVD, 7428' 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. 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)

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 2
Submitted by:
COG OPERATING LLC
Hearing Date: July 12, 2012

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: CLYDESDALE 1 FEE #4H	PROSPECT NAME: LAKEWOOD
SHL: 2260' FNL & 150' FEL UL-H	STATE & COUNTY: New Mexico, Eddy
BHL: 2260' FNL 330' FWL UL-E	OBJECTIVE: SH6 7415' MD, (3000' TVD) Yeso Test
FORMATION: Glorieta Yeso	DEPTH: 7,428
LEGAL: SEC1 T19S-R25E API#:30-015-40131	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

COG Operating LLC

We approve:
_____% Working Interest

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.