

May 7, 2012

P.J. Hannifin Family Trust
765 Santa Camela
Solona Beach, CA 92075

*U.S. Certified Mail
Return Receipt Requested*

RE: New Well Proposal
Stonewall 9 Fee #4H
SL: 150' FNL & 1040' FEL (Unit A) of Section 9, T19S, R26E
BHL: 330' FSL & 1040' FEL (Unit P) of Section 9, T19S, R26E
Eddy County, New Mexico

Dear Sirs:

COG Operating LLC ("COG") proposes to drill the Stonewall 9 Fee #4H at the captioned location, or at an approved surface location within Unit Location A, with a landing point of the lateral at 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").

Also enclosed is COG's proposed form of Operating Agreement ("OA"). A revised Exhibit A will be sent when our Division Order Title Opinion has been completed and reviewed.

The subject well is set for a tentative date of June 7th, 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. 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. 2
Submitted by:
COG OPERATING LLC
Hearing Date: June 7, 2012

COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING

WELL NAME:	STONEWALL 9 FEE #4H	PROSPECT NAME:	LAKEWOOD
SHL:	150' FNL & 1040' FEL UL-A	STATE & COUNTY:	New Mexico, Eddy
BHL:	330' FSL & 1040' FEL UL-P	OBJECTIVE:	SH6 7415' MD, (3000' TVD) Yeso Tes
FORMATION:	Glorieta Yeso	DEPTH:	7,431
LEGAL:	SEC9 T19S-R26E API#: 30-015-39779	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

By: Chad Elliott

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.