

# OGX Resources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

Certified Mail #7010 1870 0000 8950 4134

February 9, 2011

Chesapeake Exploration LLC  
P.O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Attn: Mr. Justin Zerkle

Re: Well Proposal  
Copperhead "31" Fed Com #1H Well  
T-26-S, R-29-E, N.M.P.M.  
Section 31: Lot 7, NE $\frac{1}{4}$ NE $\frac{1}{4}$   
Section 30: E $\frac{1}{2}$ E $\frac{1}{2}$   
Eddy County, New Mexico

Gentlemen:

OGX Resources LLC ("OGX") hereby proposes to drill the above referenced horizontal well at a surface hole location of 480' FSL and 480' FEL of Section 31 and a bottom hole location of 330' FNL and 330' FEL of Section 30, all in T-26-S, R-29-E, N.M.P.M., Eddy County, New Mexico. This well will be drilled to a true vertical depth of 7,200' then horizontally 6,820' for a total measured depth of 14,020' to adequately test the Avalon portion of the Bone Spring Formation. The proration unit for this well will be the E $\frac{1}{2}$ E $\frac{1}{2}$  of said Section 30 and NE $\frac{1}{4}$ NE $\frac{1}{4}$ , Lot 7 Section 24 or 228.27 acres.

Enclosed for your review is an AFE (in duplicate) showing the estimated drilling and completion costs for the subject well and a C-102 plat.

OGX invites the participation of Chesapeake Exploration LLC ("CHESAPEAKE") in this well. If CHESAPEAKE wishes to participate in the drilling of this well, please execute both copies of the AFE, after which return one copy to the undersigned. Upon receipt of the AFE, OGX will mail you an Operating Agreement for your execution covering the E $\frac{1}{2}$ E $\frac{1}{2}$  of said Section 30 and NE $\frac{1}{4}$ NE $\frac{1}{4}$ , Lot 7 Section 24 or 228.27 acres, which will supersede all existing operating agreements, naming OGX as the Operator.

Please evidence your election to participate in this well by signing the Authorization for Expenditure enclosed herewith and returning one (1) copy to me at your earliest convenience.

chesapeakecopperhead31fedcom#1hwellproposal\_020911

Oil Conservation Division  
Case No. 3 14 6<sup>3</sup> 7  
Exhibit No. 3

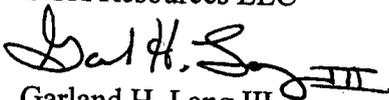
Mailid 29-11

Chesapeake Exploration LLC Well Proposal  
Copperhead "31" Fed Com #1H Well  
February 9, 2011  
Page 2

Please let me know if you have any questions or comments.

Sincerely,

OGX Resources LLC



Garland H. Lang III  
Land Manager

Enclosures

DISTRICT I  
1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II  
1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV  
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico  
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION  
1220 SOUTH ST. FRANCIS DR.  
Santa Fe, New Mexico 87505

Form C-102  
Revised October 12, 2005  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code	Pool Name
	16800	DEKAWARE RIVER-BONE SPRING
Property Code	Property Name	Well Number
	COPPERHEAD "31" FEDERAL COM	1H
OGRID No.	Operator Name	Elevation
217955	OGX RESOURCES	2895'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
7	31	26-S	29-E		480	SOUTH	480	EAST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
A	30	26-S	29-E		330	NORTH	330	EAST	EDDY

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
230			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

GEODEIC COORDINATES  
NAD 27 NME  
SURFACE LOCATION  
Y=364339.9 N  
X=598251.9 E

LAT.=32.001288° N  
LONG.=104.016382° W

BOTTOM HOLE LOCATION  
Y=371086.0 N  
X=598418.6 E

SCALE-1"=2000'

**OPERATOR CERTIFICATION**

*I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.*

*Joe T. Janica*  
Signature \_\_\_\_\_ Date \_\_\_\_\_  
Joe T. Janica  
Printed Name

---

**SURVEYOR CERTIFICATION**

*I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.*

AUGUST 24, 2010

Date Surveyed \_\_\_\_\_ LA  
Signature & Seal of \_\_\_\_\_  
Professional Surveyor  
*Ronald J. Eidson* 01/24/2011  
11.13.0138

Certificate No. CARY EIDSON 12641  
RONALD J. EIDSON 3239

**OGX RESOURCES LLC**  
AUTHORIZATION FOR EXPENDITURE

DATE: 2/9/11

OGX AFE No.:  
AFE Title: **Avalon Horizontal (6820' Lateral)**  
Well Name & No.: **COPPERHEAD 31 FED COM #1H**

Field: **DELAWARE RIVER SOUTH - BONE SPRING**  
County: **EDDY**

State: **NEW MEXICO**

Exploratory XX Development:  
Proposed Formation: **AVALON**  
Descriptor SHL: **480'FSL & 480'FEL / SEC.31-T26S-R29E**  
BHL: **330' FNL & 330' FEL, SEC. 30, T26S, R29E**

Oil: **XX** GAS  
Proposed Depth: **7200 TVD / 14,020' MD**

	MAJ	SUB	DRY HOLE	MAJ	COMPLETION	TOTAL
<b>DEVELOPMENTAL DRILLING:</b>						
Turnkey	725	470	\$0	726	\$0	\$0
Mobilization/Demob.		471	\$65,000		\$0	\$65,000
Location, Pits, Roads		472	\$65,000		\$10,000	\$75,000
Cement and Cementing Services		473	\$55,000		\$80,000	\$135,000
Mud Logging		474	\$35,000		\$0	\$35,000
Mud Materials, Chemical & Water		475	\$65,000		\$175,000	\$240,000
Logging and Sidewall Coring		478	\$35,000		\$5,000	\$40,000
Perforating		479	\$0		\$70,000	\$70,000
Stimulation		480	\$0		\$2,000,000	\$2,000,000
Formation Testing		482	\$0		\$32,000	\$32,000
Testing Tubular Goods		484	\$0		\$5,500	\$5,500
Tool Rental <b>DOWNHOLE</b>		488	\$40,000		\$3,500	\$43,500
Tool Rental <b>INCLUDES CLOSED MUD SYSTEM</b>		488	\$215,000			\$215,000
Drilling Footage		489	\$0		\$0	\$0
Drilling Day Work <b>35 days</b>		490	\$490,000		\$37,500	\$527,500
Float Equipment		491	\$6,500		\$300,000	\$306,500
Bits, Core Barrells, etc.		492	\$90,000		\$15,000	\$105,000
Other Special Well Services		494	\$18,000		\$10,000	\$28,000
Contract Services & Equip		510	\$12,000		\$120,000	\$132,000
Directional Drilling		511	\$180,000		\$0	\$180,000
Completion Unit		528	\$0		\$56,000	\$56,000
Fuel & Power		539	\$140,000		\$0	\$140,000
Auto & Truck Expense		545	\$15,000		\$2,500	\$17,500
Company Supervision <b>60 @ 1200</b>		501	\$42,000		\$30,000	\$72,000
Miscellaneous & Contingencies	8%	599	\$125,480		\$236,160	\$361,640
<b>Subtotal</b>			<b>\$1,693,980</b>		<b>\$3,188,160</b>	<b>\$4,882,140</b>

**DEVELOPMENTAL LWE "DRILLING"**

Surface Casing <b>13 3/8 @ 450'</b>	727	441	\$16,750	727	\$0	\$16,750
Conductor Pipe		442	\$9,500		\$0	\$9,500
Intermediate Casing <b>8 5/8" @ 2625'</b>		443	\$58,300		\$0	\$58,300
Production Casing <b>5 1/2" @ 12,700'</b>		443	\$0		\$265,000	\$265,000
Drilling Liner		450	\$0		\$0	\$0
Production Liner		460	\$0		\$0	\$0
Casing Head		445	\$34,000		\$15,000	\$49,000
X-Mas Tree		446	\$0		\$16,000	\$16,000
Completion Equipment		447	\$0		\$5,000	\$5,000
Retrievable Packers		448	\$0		\$5,000	\$5,000
Tubing		449	\$0		\$55,000	\$55,000
Other Material & Equipment		469	\$1,000		\$1,500	\$2,500
<b>Subtotal</b>			<b>\$119,550</b>		<b>\$362,500</b>	<b>\$482,050</b>

**ONSHORE FACILITIES**

Location, Pits, Roads	745	472			\$35,000	\$35,000
Contract Services & Equip		510			\$25,000	\$25,000
Engineering Surveys		516			\$1,500	\$1,500
Auto & Truck Expense		545			\$1,000	\$1,000
Welding Services		566			\$7,500	\$7,500
Instal Elect/Pneu System		567			\$0	\$0
Painting Service		568			\$0	\$0
Miscellaneous & Contingencies		599			\$1,500	\$1,500
<b>Subtotal</b>					<b>\$71,500</b>	<b>\$71,500</b>

**ONSHORE FACILITIES**

Misc Valves & Fittings	746	153			\$35,000	\$35,000
Corrosion or Chemical Treating Equip		438			\$0	\$0
Pumping Equipment		451			\$135,000	\$135,000
Gas Engines & Electric Motors		452			\$15,000	\$15,000
Electric Lines, Poles, Transformers, etc.		453			\$35,000	\$35,000
Bottom Hole Pump		454			\$8,000	\$8,000
Field Lines		456			\$7,500	\$7,500
Tanks, Stairs, Walkways, etc.		457			\$38,000	\$38,000
Separator & Fittings		458			\$10,500	\$10,500
Heaters, Treaters & Connections		459			\$12,000	\$12,000
Power & Circulating Pumps		460			\$2,500	\$2,500
Meters		463			\$23,000	\$23,000
Other Material & Equipment		469			\$45,000	\$45,000
<b>Subtotal</b>					<b>\$366,500</b>	<b>\$366,500</b>

**TOTAL WELL COST:**

1,813,530                      3,988,660                      5,802,190

**COMPANY APPROVAL**

NAME: **OGX RESOURCES LLC**  
By:   
Title: **Engineering Manager**  
Date: **2/9/11**

**PARTICIPANT APPROVAL**

NAME: \_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_  
W%: \_\_\_\_\_

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<b>Total Postage &amp; Fees</b>	<b>\$ 10.15</b>

Postmark  
Here



Sent To **Chesapeake Exploration LLC**  
 Street, Apt. No., or PO Box No. **P.O. Box 18496**  
 City, State, Zip+4 **OKlahoma City OK 73154** **VA**

PS Form 3800, August 2006

See Reverse for Instructions

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**Chesapeake Exploration LLC**  
**P.O. Box 18496**  
**OKlahoma City, OK 73154**  
**Attn: Justin Zerkle**

2. Article Number

7010 1870 0000 8950 4134

(Transfer from service label)

**COMPLETE THIS SECTION ON DELIVERY**

A. Signature

**X**

- Agent  
 Addressee

B. Received by (Printed Name)

**RECEIVED**

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**FEB 11 2011**

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# OGX Resources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

**Certified Mail #7010 1870 0000 8950 4226**

March 9, 2011

Chesapeake Exploration LLC  
P.O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Attn: Mr. Justin Zerkle

Re: Well Proposal  
Copperhead "31" Fed Com #1H Well  
T-26-S, R-29-E, N.M.P.M.  
Section 31: Lot 7, NE $\frac{1}{4}$ NE $\frac{1}{4}$   
Section 30: E $\frac{1}{2}$ E $\frac{1}{2}$   
Eddy County, New Mexico

Gentlemen:

On February 9, 2011, OGX Resources LLC ("OGX") proposed the subject well and sent you an AFE for your review. Enclosed for your review and execution is an Operating Agreement dated March 1, 2011 with an extra signature page, covering the subject lands.

In addition, enclosed are copies of the following:

1. Copy of the Original Drilling Title Opinion dated January 20, 2009 prepared by David A. Sutter with the law firm of Stubbeman, McRae, Sealy, Laughlin & Browder, Inc. for OGX Resources, LLC, covering, among other lands, the NE $\frac{1}{4}$ NE $\frac{1}{4}$  and Lot 7 of section 31 of the subject lands;
2. Copy of the Supplemental Drilling Title Opinion dated August 12, 2010 prepared by David A. Sutter with the law firm of Stubbeman, McRae, Sealy, Laughlin & Browder, Inc. for OGX Resources, LLC, covering, among other lands, the NE $\frac{1}{4}$ NE $\frac{1}{4}$  and Lot 7 of section 31 of the subject lands (supplements 1 above);
3. Copy of the Original Drilling Title Opinion dated August 30, 2010 prepared by David A. Sutter with the law firm of Stubbeman, McRae, Sealy, Laughlin & Browder, Inc. for OGX Resources, LLC, covering, among other lands, the E $\frac{1}{2}$ E $\frac{1}{2}$  of section 30 of the subject lands;

As stated in our February 9, 2011 letter, OGX invites the participation of Chesapeake Exploration LLC ("CHESAPEAKE") in this well. If CHESAPEAKE wishes to participate in the drilling of this well, please execute both copies of the AFE, the enclosed

Chesapeake Exploration LLC Well Proposal  
Copperhead "31" Fed Com #1H Well  
March 9, 2011  
Page 2

operating agreement and extra signature page, after which return one copy the AFE and JOA signature page to the undersigned.

In the event CHESAPEAKE does not wish to join in the drilling of the subject well, OGX would be interested in acquiring a term assignment from your company under the following terms:

Term: One year

Lands Covered by term assignment: NE/4 NE/4, Lots 1,2 and 3, the NE/4 NW/4 and NW/4 NE/4 of Section 31, T-26-S, R-29-E, N.M.P.M., Eddy County, New Mexico

Consideration: \$300.00 per net leasehold acre

ORRI reservation by CHESAPEAKE: 25.00%, less all existing leasehold burdens.

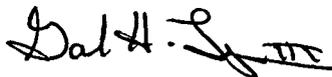
Additional Provision: 180 day continuous development

Term Assignment Form: Mutually Agreeable between OGX and CHESAPEAKE

Please contact the undersigned if you have any questions or comments.

Sincerely,

OGX Resources LLC



Garland H. Lang III  
Land Manager

Enclosures

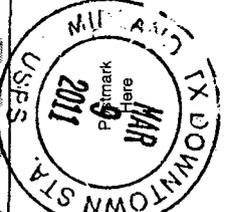
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Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 10.68



Sent To: Chesapeake Exploration, L.L.C.  
 Street, Apt. No., or P.O. Box No.: P. O. Box 18496  
 City, State, Zip+4: Oklahoma City, OK 73154-0496  
 PS Form 3800, August 2004 Attn: Mr. Justin Zerkle

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
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1. Article Addressed to:

Chesapeake Exploration, L.L.C.  
 P. O. Box 18496  
 Oklahoma City, OK 73154-0496

Attn: Mr. Justin Zerkle

**COMPLETE THIS SECTION ON DELIVERY**

- A. Signature  Agent  Addressee
- B. Received by (Printed Name) C. Date of Delivery

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MAIL ROOM 16

3. Service Type

- Certified Mail  Express Mail
- Registered  Return Receipt for Merchandise
- Insured Mail  C.O.D.
- 4. Restricted Delivery? (Extra Fee)  Yes  No

2. Article Number (Transfer from service label) 7010 1870 0000 8950 4226

PS Form 3811, February 2004 **DOA** Domestic Return Receipt **Coperthead 31** 102595-02-M-1540

# OGX Resources LLC

P.O. Box 2064 • Midland, TX 79702 • (432) 685-1287 Fax (432) 686-7109

March 10, 2011

*Via email [justin.zerkle@chk.com](mailto:justin.zerkle@chk.com)*

Chesapeake Exploration LLC  
P.O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Attn: Mr. Justin Zerkle

Re: Well Proposal  
Copperhead "31" Fed Com #1H Well  
T-26-S, R-29-E, N.M.P.M.  
Section 31: Lot 7, NE $\frac{1}{4}$ NE $\frac{1}{4}$   
Section 30: SE $\frac{1}{4}$ NE $\frac{1}{4}$ , E $\frac{1}{2}$ SE $\frac{1}{4}$ , containing  
185.60 acres of land, more or less  
Eddy County, New Mexico

Gentlemen:

On March 9, 2011, OGX Resources LLC ("OGX") sent you an operating agreement covering the subject well. Since that time we have changed the unit size as set forth above and changed the operating agreement to reflect the change. In addition, we changed the AFE as to the lateral length and bottom hole location.

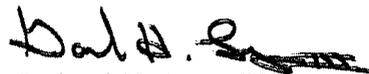
Enclosed herewith are the pages to the operating agreement that have changed and a copy of the AFE which has been changed.

Please insert the new pages into the operating agreement and replace all prior AFE's with the enclosed.

Please contact the undersigned if you have any questions or comments.

Sincerely,

OGX Resources LLC



Garland H. Lang III  
Land Manager

Enclosures