



September 17, 2012

Certified Mail Certificate Number:
91 7199 9991 7030 4013 6332

Bettiann Hinkle Bowen
1902 Ivanhoe Lane
Abilene, TX 79605

RE: **Well Proposal – Clydesdale 1 Fee #1H**
380' FNL & 150' FEL (Unit A)
380' FNL & 330' FWL (Unit D)
Section 1, T19S, R25E, Eddy County, New Mexico

Dear Ms. Bowen:

COG Operating LLC ("COG"), as Operator, proposes to drill the Clydesdale 1 Fee #1H at the above-captioned location or at an approved surface location within location unit letter A, to a depth of approximately 2845' TVD, 7433'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 the cost is set out in the enclosed Authority for Expenditure ("AFE"). COG anticipates that it will spud the well on or before March 14, 2013.

COG is proposing to drill this well under the terms of a modified 1989 AAPL Model Form Operating Agreement ("OA") covering the N ½ of the N ½ of Section 1, T-19-S, R-25-E, with the following general provisions:

- 200/500 Non-consenting penalty
- Drilling and Producing rate:
\$4500/\$450 for vertical wells from surface to 8000'
\$5450/\$545 for vertical wells below 8000' and horizontal wells all depths
- COG named as Operator

COGs proposed OA is enclosed; 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.

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

- Three year primary term
- Delivering a 77.5% NRI, proportionately reduced
- \$1000 per net acre bonus consideration

This offer to acquire your interest is subject to the approval of COG's management and verification of title.

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: October 18, 2012

If we do not reach an agreement within 30 days of the date of this letter COG will apply to the New Mexico Oil Conservation Division for compulsory pooling of your interest into a spacing unit for the proposed well.

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 432-686-3057 and land questions to the undersigned at 432-685-4354.

Yours Truly,

COG Operating LLC



Stuart A. Dirks, CPL
Senior Landman

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: CLYDESDALE 1 FEE #1H	PROSPECT NAME: LAKEWOOD
SHL: 380' FNL & 150' FEL UL-A	STATE & COUNTY: New Mexico, Eddy
BHL: 380' FNL & 330' FWL UL-D	OBJECTIVE: SH6 7415' MD, (3000' TVD) Yeso Tes
FORMATION: Glorieta Yeso	DEPTH: 7,433
LEGAL: SEC1 T19S-R25E API#:30-015-40214	TVD: 2,845

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 /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 /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		BCP	ACP	TOTAL
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: 9/6/12 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.