



Certified-Return Receipt Requested  
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First American Bank  
Attn: Thomas Mitchell, Account Manager  
303 W. Main St.  
Artesia, NM 88210  
Special Agent for:

Richard W. Wheatley and Sarah Wheatley, Co-Trustees of Wheatley Family Trust  
Fred O. McDowell and Bertha McDowell, Co-Trustees of McDowell Family Trust  
Abbe Kanner  
Claire Jeanne Carter, Trustee of Claire Jeanne Carter Trust  
Richard W. Bentwood and Jean Bentwood, Co-Trustees of Bentwood Revocable Trust  
Dr. John N. Bentwood  
Barbara Bentwood McCahan

Re: **Well Proposal – Kiowa State #3 Well-API 30-015-38420**  
T17S, R27E, Section 36: SENW, SWNE  
SHL 1,425' FNL & 1,520' FEL or in a Legal Location within Unit G (SWNE)  
Eddy County, New Mexico

Dear Mr. Mitchell:

COG Operating, LLC ("COG"), as Operator, proposes to drill the Kiowa State #3 well at a legal location approximately 1425' FNL & 1520' FEL (Unit G) of Section 36, T-17-S, R-27-E, to a depth of approximately 4850' to test the YESO (Paddock Formation) ("Operation"). The total cost of the Operation is estimated to be \$1,417,000.00 and a detailed description of such cost is set out in the enclosed Authority for Expenditure ("AFE").

If you would like to participate in the well as a pooled working interest owner, please send a check for your share of the well costs to the undersigned within 30 days of receipt of this letter. Failure to pay your share of estimated well costs will result in a non-consenting working interest. Any pooled interest owner who does not pay its share of the well cost will have withheld from production its share of reasonable well costs plus an additional 200% thereof as reasonable charge for the risk involved in drilling this well.

Included within this letter is a copy of Compulsory Pooling Order No.R-13446 for your reference. If you have any questions, please do not hesitate to contact the undersigned at 432-221-0308.

Yours Truly,

COG Operating LLC

  
Brandon K. Gaynor  
Landman

Enclosure(s) –Certified Copy to the State of New Mexico Oil Conservation Division Office of  
Jami Bailey  
BYG/rc

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 14699  
ORDER NO. R-13445

APPLICATION OF COG OPERATING, LLC FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 4, 2011, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 22<sup>nd</sup> day of August, 2011, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) COG Operating, LLC ("Applicant"), seeks an order pooling all uncommitted interests from 2000 feet to 5000 feet beneath the earth's surface in the SE/4 NW/4 of Section 36, Township 17 South, Range 27 East, NMPM, in Eddy County, New Mexico, to form a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Northeast Red Lake- Glorieta-Yeso Pool.

(3) The Unit is to be dedicated to Applicant's proposed Kiowa State Well No. 1 (API No. 30-015-38399), (the "proposed well") to be drilled at a standard location 1665 feet from the North line and 2205 feet from the West line (Unit F) of Section 36.

(4) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(6) There are interest owners in the Unit that have not agreed to pool their interests. However, there are no unlocated owners and no evidence of a title dispute.

(7) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(8) Applicant should be designated the operator of the proposed well and of the Unit.

(9) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations.*"

**IT IS THEREFORE ORDERED THAT:**

(1) Pursuant to the application of COG Operating, LLC, all uncommitted interests, whatever they may be, in the oil and gas from 2000 feet to 5000 feet beneath the earth's surface in the SE/4 NW/4 of Section 36, Township 17 South, Range 27 East, NMPM, in Eddy County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, which presently include, but are not necessarily limited to, the Northeast Red Lake- Glorieta-Yeso Pool (96836).

(2) The Unit shall be dedicated to Applicant's proposed Kiowa State Well No. 1 (API No. 30-015-38399), (the "proposed well") to be drilled at a standard location 1665 feet from the North line and 2205 feet from the West line (Unit F) of Section 36.

(3) The operator of the Unit shall commence drilling the proposed well on or before August 31, 2012, and shall thereafter continue drilling the well with due diligence to test the Yeso formation.

(4) In the event the operator does not commence drilling the proposed well on or before August 31, 2012, Ordering Paragraph (1) shall be of no effect, unless the

operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule Part 13, Sections 9 through 11, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) COG Operating, LLC (OGRID 229137) is hereby designated the operator of the proposed well and of the Unit.

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs

exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

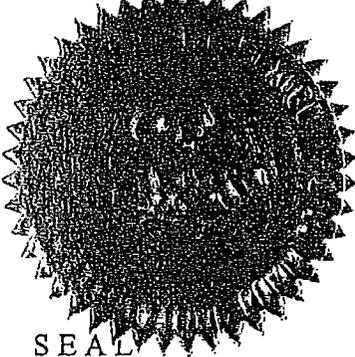
(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(16) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(17) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

JAMI BAILEY  
Director

**COG OPERATING LLC  
AUTHORITY FOR EXPENDITURE  
DRILLING**

WELL NAME: KIOWA STATE #3	PROSPECT NAME: LOGAN DRAW
LOCATION: SEC36-T17S-R27E	COUNTY & STATE: EDDY COUNTY, NM
SHL: 1425' FNL & 1520' FEL UL - G	OBJECTIVE: Dir. Blinebry Paddock (4 fracs) 4850'
BHL: 1650' FNL & 1650' FEL UL - G	

<u>INTANGIBLE COSTS</u>	<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
Title/Curative/Permit	201	10,000	10,000
Insurance	202	3,800	3,800
Damages/Right of Way	203		0
Survey/Stake Location	204	2,500	2,500
Location/Pits/Road Expense	205	30,000	35,000
Drilling / Completion Overhead	206	2,500	4,500
Turnkey Contract	207		0
Footage Contract	208		0
Daywork Contract	209	88,000	88,000
Directional Drilling Services	210	100,000	100,000
Fuel & Power	211	20,000	21,000
Water	212	22,000	54,000
Bits	213	25,000	25,500
Mud & Chemicals	214	10,000	10,000
Drill Stem Test	215		0
Coring & Analysis	216		0
Cement Surface	217	14,000	14,000
Cement Intermediate #1	218	12,000	12,000
Cement Intermediate #2			0
Cement Production		319	28,500
Cement Squeeze	220		0
Float Equipment & Centralizers	221	2,500	4,500
Casing Crews & Equipment	222	6,000	10,800
Fishing Tools & Service	223		0
Geologic/Engineering	224	1,000	1,000
Contract Labor	225	3,000	18,000
Company Supervision	226		0
Contract Supervision	227	10,500	15,500
Testing Casing/Tubing	228	3,000	4,800
Mud Logging Unit	229	3,000	3,000
Logging	230	15,000	15,000
Perforating/Wireline Services	231		22,000
Stimulation/Treating (4 fracs)			358,000
Completion Unit		333	20,000
Swabbing Unit		334	0
Rentals-Surface	235	7,000	43,000
Rentals-Subsurface	236	24,000	31,000
Trucking/Forklift/Rig Mobilization	237	30,000	34,000
Welding Services	238	3,000	4,000
Water Disposal	239		3,000
Plug to Abandon	240		0
Seismic Analysis	241		0
Closed Loop & Environmental	244	50,000	50,000
Miscellaneous	242		0
Contingency 5%	243	25,200	53,600
<b>TOTAL INTANGIBLES</b>		<b>523,000</b>	<b>1,100,000</b>
<u>TANGIBLE COSTS</u>			
Surface Casing	401	11,000	11,000
Intermediate Casing #1	402	14,000	14,000
Intermediate Casing #2			0
Production Casing/Liner		503	52,000
Tubing		504	29,000
Wellhead Equipment	405	6,000	9,000
Pumping Unit		506	97,000
Prime Mover		507	0
Rods		508	22,000
Pumps		509	4,500
Tanks		510	4,000
Flowlines		511	15,000
Heater Treater/Separator		512	6,000
Electrical System		513	20,000
Packers/Anchors/Hangers	414	514	900
Couplings/Fittings/Valves	415	515	15,500
Gas Compressors/Meters		516	0
Dehydrator		517	0
Injection Plant/CO2 Equipment		518	0
Miscellaneous	419	519	1,000
Contingency 5%	420	520	16,100
<b>TOTAL TANGIBLES</b>		<b>34,000</b>	<b>317,000</b>
<b>TOTAL WELL COSTS</b>		<b>557,000</b>	<b>1,417,000</b>

COG Operating LLC

By: C Bird / J Coffman

Date Prepared: 4/15/11

We approve.  
\_\_\_\_\_ % Before Tanks / \_\_\_\_\_ % After Tanks

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.