

March 12, 2012

Cecil L. Thompson, Jr.
34 Jamerson Rd.
Belen, NM 87002

Re: **Well Proposal – Arabian 6 Fee #2H Well**

T19S, R26E, Section 6: E/2W/2

SHL: 150' FSL & 1700' FWL, or a legal location in Unit N

BHL: 330' FNL & 1700' FWL, or a legal location in Unit C

Eddy County, New Mexico

Dear Mr. Thompson:

COG Operating LLC (COG), as Operator, proposes to drill the Arabian 6 Fee # 2H well as a horizontal well at the above-captioned location to a TVD of approximately 2,590' and a MD of 7,300' to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$3,922,000 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

Also enclosed is COG's proposed form of Operating Agreement ("OA").

If you do not wish to participate in the Operation, COG would like to acquire a lease of your minerals for the following general terms:

- 3 year primary term
- ¼ Royalty
- \$1,000 per net acre bonus consideration

If you have any questions, please do not hesitate to contact the undersigned at 432-221-0308.

Respectfully,

Brandon K. Gaynor
Landman

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 3
Submitted by:
COG OPERATING LLC
Hearing Date: April 12, 2012

COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING

WELL NAME: ARABIAN 6 FEE #2H	PROSPECT NAME: LAKEWOOD
Surf. 150' FSL, 1700' FWL, Section 6	COUNTY & STATE: Eddy Co. NM
BHL. 330' FNL, 1700' FWL, Section 6	OBJECTIVE: 7300' MD, (2590' TVD) Yeso Test
T19S, R26E	

INTANGIBLE COSTS		BCP		ACP		TOTAL
Title/Curative/Permit	201	10,000				10,000
Insurance	202	22,000	302			22,000
Damages/Right of Way	203	15,000	303			15,000
Survey/Stake Location	204	3,000	304			3,000
Location/Pits/Road Expense	205	40,000	305	15,000		55,000
Drilling / Completion Overhead	206	5,000	306	1,000		6,000
Turnkey Contract	207		307			0
Footage Contract	208		308			0
Daywork Contract 15:3 @ \$14000/day	209	210,000	309	42,000		252,000
Directional Drilling Services	210	150,000	310			150,000
Fuel & Power	211	44,625	311	8,925		53,550
Water	212	20,000	312	60,000		80,000
Bits	213	40,000	313	1,000		41,000
Mud & Chemicals	214	35,000	314			35,000
Drill Stem Test	215		315			0
Coring & Analysis	216					0
Cement Surface	217	50,000				50,000
Cement Intermediate	218					0
Cement Production 5-1/2"	218		319	25,000		25,000
Cement Squeeze & Other (Kickoff Plug)	220		320			0
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		323			0
Geologic/Engineering	224	10,000	324	1,000		11,000
Contract Labor	225	10,000	325	21,000		31,000
Company Supervision	226	2,000	326	2,000		4,000
Contract Supervision	227	24,000	327	4,800		28,800
Testing Casing/Tubing	228	2,500	328	12,000		14,500
Mud Logging Unit	229	15,000	329			15,000
Logging	230	15,000	330			15,000
Perforating/Wireline Services	231	3,500	331			3,500
Stimulation/Treating			332	1,500,000		1,500,000
Completion Unit			333	24,000		24,000
Swabbing Unit			334			0
Rentals-Surface	235	25,000	335	75,000		100,000
Rentals-Subsurface	236	35,000	336	10,000		45,000
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		339	15,000		15,000
Plug to Abandon	240		340			0
Seismic Analysis	241		341			
Closed Loop & Environmental	244	75,000	344			75,000
Miscellaneous	242	5,000	342	1,000		6,000
Contingency	243	93,375	343	188,775		282,150
TOTAL INTANGIBLES		1,017,000		2,067,000		3,084,000

TANGIBLE COSTS		BCP		ACP		TOTAL
Surface Casing 8 5/8" 32#	401	31,800				31,800
Intermediate Casing	402		503			0
Production Casing/Liner 5 1/2" 17# x 7" 26#			503	151,100		151,100
Tubing 2600' 2 7/8"			504	19,000		19,000
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			0
Pumps			509	10,000		10,000
Tanks			510	27,825		27,825
Flowlines			511	5,000		5,000
Heater Treater/Separator			512	48,500		48,500
Electrical System			513	2,500		2,500
Packers/Anchors/Hangers	414		514	310,000		310,000
Couplings/Fittings/Valves	415	2,500	515	45,250		47,750
Gas Compressors/Meters			516	4,000		4,000
Dehydrator			517			0
Injection Plant/CO2 Equipment			518			0
Miscellaneous	419	1,000	519	21,000		22,000
Contingency	420	5,700	520	72,825		78,525
TOTAL TANGIBLES		46,000		792,000		838,000
TOTAL WELL COSTS		1,063,000		2,859,000		3,922,000

COG Operating LLC

By: Chad Elliott

Date Prepared: 02/28/2012

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.