



May 25, 2012

***U.S. Certified Mail
Return Receipt Requested***

Floyd Energy, Ltd
P.O. Box 52107
Midland, TX 79710

RE: **New Well Proposal**

Grant 2 Fee #3H

SL: 330' FSL & 1910' FEL (Unit O) of Section 2, T19S, R26E

BHL: 330' FNL & 2260' FEL (Lot 2) of Section 2, T19S, R26E

Eddy County, New Mexico

Dear Madam or Sir:

COG Operating LLC ("COG") proposes to drill the Grant 2 Fee #3H at the captioned location, or at an approved surface location within Unit Location O, to a depth of 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"). These costs include the drilling of a pilot hole which may be determined at a later date to be unnecessary.

If you elect to participate in the subject well, please sign and return a copy of the AFE to the below letterhead address. Also enclosed is COG's proposed form of Operating Agreement ("OA"). 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. COG will carry Worker's Comp insurance for all non-operators as is required by law; however, you will be responsible for any additional coverage you deem may be necessary. Please provide a copy of your insurance certificate.

If you elect not to participate in the well, COG would be willing to lease your minerals or take a term assignment of your leasehold. Please contact the undersigned if you are interested in receiving an offer.

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 Chad Elliot at 432-818-2338 and land questions to the undersigned at 432-685-4354.

Yours truly,

COG Operating, LLC

Stuart A. Dirks, CPL
Senior Landman

Enclosure (s)

COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING

WELL NAME:	BRADLEY 8 FEE #2H	PROSPECT NAME:	LAKEWOOD
SHL:	150' FSL & 1700' FWL UL-N	STATE & COUNTY:	New Mexico, Eddy
BHL:	330' FNL & 1700' FWL UL-C	OBJECTIVE:	SH6 7415' MD, (3000' TVD) Yeso Tes
FORMATION:	Glorieta Yeso	DEPTH:	7,383
LEGAL:	SEC8 T19S-R26E API#: 30-015-39811	TVD:	

INTANGIBLE COSTS

		BCP	ACP	TOTAL
Title/Curative/Permit	201	10,000		10,000
Insurance	202	22,000	0	22,000
Damages/Right of Way	203	15,000	0	15,000
Survey/Stake Location	204	3,000	0	3,000
Location/Pits/Road Expense	205	50,000	15,000	65,000
Drilling / Completion Overhead	206	5,000	1,000	6,000
Turnkey Contract	207	0	0	0
Footage Contract	208	0	0	0
Daywork Contract (0 days f/spud-ris @ \$0)	209	266,000	42,000	308,000
Directional Drilling Services (0 dir days @ \$0)	210	165,000	0	165,000
Fuel & Power	211	57,000	9,000	66,000
Water	212	28,500	60,000	88,500
Bits	213	40,000	5,000	45,000
Mud & Chemicals	214	35,000	0	35,000
Drill Stem Test	215	0	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	25,000	25,000
Cement Squeeze & Other (Kickoff Plug)	220	40,000	0	40,000
Float Equipment & Centralizers	221	2,000	25,000	27,000
Casing Crews & Equipment	222	5,000	12,000	17,000
Fishing Tools & Service	223	0	0	0
Geologic/Engineering	224	10,000	1,000	11,000
Contract Labor	225	20,000	21,000	41,000
Company Supervision	226	2,000	2,000	4,000
Contract Supervision	227	30,400	4,800	35,200
Testing Casing/Tubing	228	2,500	12,000	14,500
Mud Logging Unit (logging f/24 days)	229	23,750	0	23,750
Logging	230	25,000	0	25,000
Perforating/Wireline Services	231	3,500	0	3,500
Stimulation/Treating			1,300,000	1,300,000
Completion Unit			24,000	24,000
Swabbing Unit			0	0
Rentals-Surface	235	32,300	75,000	107,300
Rentals-Subsurface	236	49,400	10,000	59,400
Trucking/Forklift/Rig Mobilization	237	45,000	20,000	65,000
Welding Services	238	5,000	2,500	7,500
Water Disposal	239	0	15,000	15,000
Plug to Abandon	240	0	0	0
Seismic Analysis	241	0	0	0
Closed Loop & Environmental	244	88,000	0	88,000
Miscellaneous	242	5,000	1,000	6,000
Contingency	243	114,650	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	0	0
Production Casing (13,450' 5 1/2" 17# N80/P110)			150,000	150,000
Tubing			16,000	16,000
Wellhead Equipment	405	5,000	15,000	20,000
Pumping Unit			40,000	40,000
Prime Mover			20,000	20,000
Rods			12,000	12,000
Pumps			10,000	10,000
Tanks			21,000	21,000
Flowlines			8,000	8,000
Heater Treater/Separator			30,000	30,000
Electrical System			11,250	11,250
Packers/Anchors/Hangers	414	0	335,000	335,000
Couplings/Fittings/Valves	415	2,500	45,000	47,500
Gas Compressors/Meters			14,500	14,500
Dehydrator			0	0
Injection Plant/CO2 Equipment			0	0
Miscellaneous	419	1,000	20,000	21,000
Contingency	420	5,500	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.