



March 26, 2012

Sent via Facsimile (713) 647-3003 and U.S. Mail

TOTAL E&P USA, INC.
Total Plaza
1201 Louisiana Street - Suite 1800
Houston, TX 77002

RE: **Well Proposal: Burkett State # 1**
COG Operating LLC ("COG"), as Operator
SHL: 1650' FNL & 1650' FEL (Unit G - SWNE)
Section 16, T17S-R31E, Eddy County, New Mexico
API # 30-015-40013

Gentlemen:

COG Operating LLC ("COG") hereby proposes to drill the Burkett State #1 well on July 17, 2012 to a total vertical depth of 6700' in the Yeso formation. Please find enclosed, for your review and approval, a copy of COG's Authority for Expenditure ("AFE") detailing the estimated costs for drilling and completing the Burkett State #1 well. Should Total be interested in participating in this proposal, please review and approve the enclosed Joint Operating Agreement.

Pursuant to Requirement No. 6 of the attached Title Opinion dated January 11, 2012, rendered by Kim Hamann, Total Petrochemical USA Inc. ("Total") has 25% working interest in the captured lands as successor to American Petrofina, Inc.

However, should Total not be interested in participating in this proposal, COG respectfully requests a three year term assignment covering Total's entire interest in the W/2NE/4 and N/2NW/4 of Section 16-T17S-R31E, Eddy County, NM, for the following terms:

- Bonus consideration of \$500 per net acre for your 40 acres.
- Total to deliver 75% NRI proportionately reduced.
- Continuous Development: 180 days

Corporate Address: Fasken Center, Tower II 550 West Texas Avenue, Suite 100 Midland, Texas 79701 PHONE 432.683.7443 FAX 432.683.7441

NMOCD CASE NO. 14855
JUNE 25, 2012
COG EX. 3



Time is of the essence and a quick response would be greatly appreciated. Should you require additional information or have any questions, please do not hesitate to contact the undersigned at (432) 221-0333.

Thank you for your time and consideration of this proposal.

Sincerely,

COG Operating LLC

A handwritten signature in black ink, appearing to read "Katie Mohebkhosravi".

Katayoun "Katie" Mohebkhosravi
Landman
KMohebkhosravi@concho.com

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: Burkett "16" State #1

PROSPECT NAME: Burkett

LOCATION: 17S-31E

COUNTY & STATE: EDDY COUNTY, NM

FOOTAGE: 1650 FNL 1650 FEL

OBJECTIVE: Ver. Blinbry Paddock (4 Fracs) 6700'

Section 16 (SW/NE - Unit "G")

API # 30-015-40013

INTANGIBLE COSTS

		BCP	ACP	TOTAL
Title/Curative/Permit	201	22,000		22,000
Insurance	202	3,800	302	3,800
Damages/Right of Way	203		303	0
Survey/Stake Location	204	2,500	304	2,500
Location/Pits/Road Expense	205	37,000	305 5,000	42,000
Drilling / Completion Overhead	206	2,500	306 2,000	4,500
Turnkey Contract	207		307	0
Footage Contract	208		308	0
Daywork Contract	209	142,000	309	142,000
Directional Drilling Services	210	0	310	0
Fuel & Power	211	40,000	311 1,000	41,000
Water	212	28,000	312 25,000	53,000
Bits	213	27,000	313 500	27,500
Mud & Chemicals	214	17,000	314	17,000
Drill Stem Test	215		315	0
Coring & Analysis	216			0
Cement Surface	217	16,000		16,000
Cement Intermediate #1	218	16,000		16,000
Cement Intermediate #2				0
Cement Production			319 38,000	38,000
Cement Squeeze	220		320	0
Float Equipment & Centralizers	221	2,500	321 2,000	4,500
Casing Crews & Equipment	222	7,000	322 8,000	15,000
Fishing Tools & Service	223		323	0
Geologic/Engineering	224	1,000	324	1,000
Contract Labor	225	3,000	325 15,000	18,000
Company Supervision	226		326	0
Contract Supervision	227	15,000	327 5,000	20,000
Testing Casing/Tubing	228	3,000	328 3,000	6,000
Mud Logging Unit	229	4,000	329	4,000
Logging	230	15,000	330	15,000
Perforating/Wireline Services	231	3,500	331 28,500	32,000
Stimulation/Treating (4 fracs)			332 390,000	390,000
Completion Unit			333 22,000	22,000
Swabbing Unit			334	0
Rentals-Surface	235	14,000	335 36,000	50,000
Rentals-Subsurface	236	28,000	336 10,000	38,000
Trucking/Forklift/Rig Mobilization	237	43,000	337 8,000	51,000
Welding Services	238	3,000	338 1,000	4,000
Water Disposal	239		339 7,000	7,000
Plug to Abandon	240		340	0
Seismic Analysis	241		341	0
Closed Loop & Environmental	244	79,000	344	79,000
Miscellaneous	242		342	0
Contingency 5%	243	29,200	343 31,000	60,200
TOTAL INTANGIBLES		604,000	638,000	1,242,000

TANGIBLE COSTS

Surface Casing	401	21,000		21,000
Intermediate Casing #1	402	48,000		48,000
Intermediate Casing #2		0		0
Production Casing/Liner			503 92,000	92,000
Tubing			504 42,000	42,000
Wellhead Equipment	405	6,000	505 3,000	9,000
Pumping Unit			506 97,000	97,000
Prime Mover			507	0
Rods			508 41,000	41,000
Pumps			509 4,500	4,500
Tanks			510 10,000	10,000
Flowlines			511 15,000	15,000
Heater Treater/Separator			512 12,000	12,000
Electrical System			513 20,000	20,000
Packers/Anchors/Hangers	414		514 900	900
Couplings/Fittings/Valves	415	500	515 16,500	17,000
Gas Compressors/Meters			516	0
Dehydrator			517	0
Injection Plant/CO2 Equipment			518	0
Miscellaneous	419	500	519 500	1,000
Contingency 5%	420	4,000	520 18,600	22,600
TOTAL TANGIBLES		80,000	373,000	453,000
TOTAL WELL COSTS		684,000	1,011,000	1,695,000

COG Operating LLC

By: John Coffman/Carl Bird

Date Prepared: 3/26/12

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.

COG Operating LLC
Section 16, T19S, R31E: N/2NW and W2/NE
January 11, 2012
Page 10

Requirement No. 6. This Requirement concerns the 25% leasehold interest herein credited to Total Petrochemicals USA, Inc. In 1963, American Petrofina, Inc. acquired the interest of Cosden Petroleum Corporation, which had among its assets a one-fourth interest below 4,000' in the subject leasehold. This is evidenced by Assignment to American Petrofina recorded in Book 134, Page 1 ECR. In 1991, American Petrofina, Inc. became FINA, Inc. In 1997 another "FINA" related entity, Fina Oil and Chemical Company (whose name prior to 1985 had been American Petrofina Company of Texas - not the same as "American Petrofina, Inc.") by a term assignment (one year plus drilling requirements) purports to assign its interest in the subject leasehold to Chase Oil Corporation. There were no warranties of title. According to the Materials Examined, this Assignor, Fina Oil and Chemical Company, never had record title interest. On April 29, 1999, effective January 1, 1999, Fina Oil and Chemical Company purports to assign this same interest, without warranty of title, to Manix Energy, LLC. There is no recorded documentation evidencing the termination of the prior assignment to Chase Oil Corporation for failure to fulfill the drilling commitment but, for purposes of scheduling ownership, we assumed the drilling requirement was not met and, since Fina Oil and Chemical Company is a stranger to title, we have scheduled Total Petrochemicals USA Inc. (as the successor to FINA, Inc.), as the owner of this 25% interest.

There is a lengthy chain of title following the assignment from Fina Oil and Chemical Company to Manix Energy, LLC. The last related conveyance entry filed December 22, 2010, appearing in Book 838, Page 242 ECR, is an Assignment to Apache Corporation. All of these assignments, commencing with Manix Energy, LLC, are blanket assignments of multiple interests; they are not assignments of interest only in the subject lease. There is nothing in the Materials Examined to indicate that American Petrofina, Inc. or FINA, Inc. conveyed or otherwise transferred its interest to Fina Oil and Chemical Company, a wholly owned subsidiary of American Petrofina, Inc. The Corporate website for Total Petrochemicals USA, Inc., corporate successor to FINA, does not represent that FINA, Inc. and Fina Oil and Chemical Company were ever one and the same by merger/name change or otherwise. The New Mexico Public Regulation Commission website represents that American Petrofina, Inc. never owned assets in New Mexico. Further, we did find an entry in the NMSLO tract book for Section 16 that identifies an application for a salt water disposal well in Section 16 that was submitted on November 8, 2011 by Apache Corp. Since the application is pending, its contents are not yet public information. It is, however, an indication that Apache claims an interest in these lease lands.

As a result of the foregoing facts and analysis, there are three potential scenarios regarding ownership of the 25% working interest scheduled in Total Petrochemicals USA Inc.:

- a. As shown in our ownership schedule, the interest is owned by Total Petrochemicals USA Inc., as successor by merger or name change to the record title owner, American Petrofina, Inc.;

**This opinion furnished by COG Operating LLC.
Anyone relying upon the contents
herein does so at his own risk and with-
out recourse to COG Operating LLC.**

BEATTY & WOZNAK, P.C.

COG Operating LLC
Section 16, T19S, R31E: N/2NW and W2/NE
January 11, 2012
Page 11

- b. Assuming Fina Oil and Chemical Company succeeded, by name change or merger (we could find no evidence supporting this assumption), to the interest owned of record by American Petrofina, Inc., and assuming the term assignment referenced in the comment terminated for failure of the assignee to satisfy the drilling requirement, then the interest would be owned by the successors and assigns of Manix Energy, LLC; and
- c. Assuming Fina Oil and Chemical Company succeeded, by name change or merger (we could find no evidence supporting this assumption), to the interest owned of record by American Petrofina, Inc., and assuming the term assignment referenced in the comment was continued in effect by satisfaction of the drilling requirement, then the interest would be owned by COG Oil & Gas, LP.

REQUIREMENT: You should inquire with both Apache Corporation and Total Petrochemicals USA Inc. regarding their claim to ownership, if any, of the referenced 25% working interest. You should determine whether Fina Oil and Chemical Company succeeded to the interest of FINA, Inc. If so, you should record appropriate documentation of such succession in Eddy County. You should also determine whether the term assignment referenced in the comment terminated for failure to satisfy the drilling requirement. You should return to us with the results of your investigations so that we can revise this Opinion accordingly and make the appropriate additional requirements.

This opinion furnished by COG Operating LLC.
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herein does so at his own risk and with-
out recourse to COG Operating LLC.