

December 16, 2013

Sent Via Certified Mail
91 7199 9991 7033 4972 9594

Yates Petroleum Corporation
105 South 4th Street
Artesia, NM 88210

RE: **Well Proposal – Sherman 4 Fee #10H**
T19S, R26E, Sections 1: W2W2 Unit Area
SHL: 150' FSL & 330' FWL (or a legal location in Unit M – SWSW Sec. 33)
BHL: 330' FSL & 530' FWL (or a legal location in Unit M – SWSW Sec. 4)
Eddy County, New Mexico

To Whom It May Concern:

COG Operating LLC (COG), as Operator, proposes to drill the Sherman 4 Fee #10H well as a horizontal well at the above-captioned location to a TVD of approximately 2,900' and a MD of 7,600' to test the Yezo Formation ("Operation"). The total cost of the Operation is estimated to be \$3,548,000 and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE").

COG is proposing to drill this well under the terms of the modified 1989 AAPL form of Operating Agreement modified for horizontal development. Enclosed is a 1989 AAPL form Operating Agreement. The Operating Agreement covers (T19S R26E Section 4 W/2W/2). It has the following general provisions:

- 200/500 Non-consenting penalty
- \$5,450/\$545 Drilling and Producing rate
- COG named as Operator

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

- 3 year primary term
- Delivering a 81.25% NRI, proportionately reduced
- \$1,000 per net acre bonus consideration

If you have not leased the lands in Section 4: W/2W/2 T19S, R26E then COG would offer to lease said lands under the following general terms:

- 3 year primary term
- Retain a 25% royalty
- \$1,000 per acre bonus consideration

BEFORE THE OIL
CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 3
Submitted by: COG OPERATING INC.
Hearing Date: March 6, 2014

The offer is subject to final title verification.

If an agreement can't be negotiated 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 are an Heir(s) under the property and have leased or term assigned to a party then please disregard this proposal as compulsory pooling will not affect your interest.

If you have any questions, please do not hesitate to contact Joseph Scott at 432-688-6601 or by email at jscott@concho.com

Respectfully,

Garrett Black
Land Coordinator

Enclosure(s)

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: SHERMAN 4 FEE #10H	PROSPECT NAME: LAKEWOOD/CEMETARY
SHL: 150' FSL & 330' FWL UL: M Sec. 33	STATE & COUNTY: New Mexico, Eddy
BHL: 330' FSL & 530' FWL UL: M Sec. 4	OBJECTIVE: SH9 Yeso Horizontal
FORMATION: YESO	DEPTH: 7,600
LEGAL: SEC. 4 T19S R26E	TVD: 2,900

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	50,000	0	50,000
Survey/Stake Location	204	3,000	0	3,000
Location/Pits/Road Expense	205	55,000	25,000	80,000
Drilling / Completion Overhead	206	2,500	2,000	4,500
Turnkey Contract	207			0
Footage Contract	208			0
Daywork Contract (0 days /spud-ris @ \$0)	209	160,000	29,000	189,000
Directional Drilling Services (0 dir days @ \$0)	210	125,000		125,000
Fuel & Power	211	33,000	6,000	39,000
Water	212	27,000	130,000	157,000
Bits	213	25,000	5,000	30,000
Mud & Chemicals	214	21,000	0	21,000
Drill Stem Test	215		0	0
Coring & Analysis	216			0
Cement Surface	217	42,000		42,000
Cement Intermediate	218	0		0
Cement 2nd Intermediate/Production	218	0	61,000	61,000
Cement Squeeze & Other (Kickoff Plug)	220		0	0
Float Equipment & Centralizers	221	2,000	20,000	22,000
Casing Crews & Equipment	222	5,000	12,000	17,000
Fishing Tools & Service	223			0
Geologic/Engineering	224	8,000		8,000
Contract Labor	225	16,000	21,000	37,000
Company Supervision	226	2,000	2,000	4,000
Contract Supervision	227	19,000	20,000	39,000
Testing Casing/Tubing	228	3,000	5,000	8,000
Mud Logging Unit (logging 024 days)	229	10,000		10,000
Logging	230	0		0
Perforating/Wireline Services	231	1,500	95,000	96,500
Stimulation/Treating			1,100,000	1,100,000
Completion Unit			30,000	30,000
Swabbing Unit				0
Rentals-Surface	235	16,000	200,000	216,000
Rentals-Subsurface	236	26,000	60,000	86,000
Trucking/Forklift/Rig Mobilization	237	43,000	20,000	63,000
Welding Services	238	5,000	2,500	7,500
Water Disposal	239	0	130,000	130,000
Plug to Abandon	240	0	0	0
Seismic Analysis	241	0	0	0
Closed Loop & Environmental	244	55,000	0	55,000
Miscellaneous	242	0	0	0
Contingency 10%	243	79,000	196,500	277,500
TOTAL INTANGIBLES		866,000	2,174,000	3,040,000

TANGIBLE COSTS				
Surface Casing (8 5/8" 32# J55 LTC)	401	25,000		25,000
Intermediate Casing (2150' 8 5/8" 32# J55 LTC)	402	0	0	0
Production Casing (5 1/2" 17# L80)			107,000	107,000
Tubing			15,000	15,000
Wellhead Equipment	405	6,000	20,000	26,000
Pumping Unit			60,000	60,000
Prime Mover			20,000	20,000
Rods			12,000	12,000
Pumps			70,000	70,000
Tanks			21,000	21,000
Flowlines			8,000	8,000
Heater Treater/Separator			30,000	30,000
Electrical System			20,000	20,000
Packers/Anchors/Hangers	414	0	2,500	2,500
Couplings/Fittings/Valves	415	500	60,000	60,500
Gas Compressors/Meters			5,000	5,000
Dehydrator				0
Injection Plant/CO2 Equipment				0
Miscellaneous	419	500	500	1,000
Contingency	420	2,000	23,000	25,000
TOTAL TANGIBLES		34,000	474,000	508,000
TOTAL WELL COSTS		900,000	2,648,000	3,548,000

COG Operating LLC

By: Carl Bird

We approve:

_____% Working Interest

Company:

By:

Printed Name:

Title:

Date:

Date Prepared: 12/13/13

GB

COG Operating LLC

By:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.