



June 4, 2014

Ard Oil, Ltd.
4808 Westridge Ave
Fort Worth, TX 76116

Re: **Well Proposal – Ivar the Boneless Federal #1H**
T17S, R32E, W2W2 of Section 15
SHL: 370' FSL & 380' FWL, Section 10 (Unit M)
BHL: 330' FSL & 330' FWL, Section 15 (Unit M)
Lea County, New Mexico

Dear Sir or Madam,

COG Operating LLC (COG), as Operator, proposes to drill the Ivar the Boneless Federal #1H well as a horizontal well at the above-captioned location to a TVD of approximately 5,800' to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$3,826,000 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 1982 AAPL form of Operating Agreement modified for horizontal development enclosed herein. A completed copy will be sent at a later date for proper execution. The Operating Agreement covers, T17S-R32E, W/2W/2 of Section 15, Lea County, NM. It has the following general provisions:

- 100/300 Non-consenting penalty
- \$6,000/\$600 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 80% NRI, proportionately reduced
- \$700 per net acre bonus consideration

The Term Assignment offer is subject to the approval of COG's management and verification of title.

If we do not reach an agreement 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/project area for the proposed well.

If you have any questions, please do not hesitate to contact the undersigned at 432-818-2230.

Respectfully,

Sean Johnson
Sr.Landman

Enclosure(s)

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Exhibit No. 3

Submitted by: COG OPERATING LLC

Hearing Date: September 4, 2014