



October 16, 2014

Via Certified Mail

Working Interest Owners - Listed on Attached Exhibit "A"

Re: Well Proposal – Mescal 22 Federal #1H
Township 25 South, Range 29 East, N.M.P.M.
Section 22: N/2 S/2
SHL: 2220' FSL & 360' FEL (Or at a legal location in Unit I)
BHL: 2075' FSL & 330' FWL (Or at a legal location in Unit L)
Eddy County, New Mexico

Dear Working Interest Owners:

COG Operating LLC ("COG"), as contract Operator for COG Production LLC, proposes to drill the Mescal 22 Federal #1H as a horizontal well at the above-captioned location to a TVD of approximately 7,725' and a MD of 12,100' to test the Lower Avalon Formation ("Operation"). The total cost of the Operation is estimated to be \$6,884,000, and a detailed description of the cost is set out in the enclosed Authority for Expenditure ("AFE"). COG anticipates that it will spud the well on or before December 19, 2014.

COG is proposing to drill this well under that certain Operating Agreement dated June 1, 2010, by and between OGX Resources LLC, as Operator, and OXY USA Inc., et al, as Non-Operators.

Please indicate your participation election in the space provided below and return this letter, along with an executed AFE and a copy of your geological well requirements to the corporate address below, attention Aaron Myers. Should you have any questions, please do not hesitate to contact Aaron Myers at 432-688-6674.

Very truly yours,
COG Operating LLC

Savannah Haller
Land Technician – Delaware Basin

I/We hereby elect to participate in the Mescal 22 Federal #1H, with working interest as set out in Exhibit "A" under the existing Operating Agreement dated June 1, 2010.

I/We hereby elect not to participate in the Mescal 22 Federal #1H.

Company: _____

By: _____

Name: _____

Title: _____

Date: _____

**BEFORE THE OIL CONVERSION
DIVISION**

Santa Fe, New Mexico

Exhibit No. 3

Submitted by: COG Operating LLC

Hearing Date: December 17, 2014

CORPORATE ADDRESS

One Concho Center | 600 West Illinois Avenue | Midland, Texas 79701
PHONE 432.683.7443 | FAX 432.683.7441

LOCAL ADDRESS

Concho West | 2208 Main Street | Artesia, New Mexico 88210
PHONE 575.748.6940 | FAX 575.746.2096

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: MESCAL 22 FEDERAL #1H	PROSPECT NAME: ATLAS 2529 (717050)
SHL: 2220 FSL & 360 FEL	STATE & COUNTY: New Mexico, Eddy
BHL: 2075 FSL & 330 FWL	OBJECTIVE: DRILL & COMPLETE
FORMATION: LAV	DEPTH: 12,100
LEGAL: 22-25S-29E	TVD: 7,725

INTANGIBLE COSTS		BCP	ACP	TOTAL
Title/Curative/Permit	201	11,000		11,000
Insurance	202	5,000	302	5,000
Damages/Right of Way	203	15,000	303	15,000
Survey/Stake Location	204	7,000	304	7,000
Location/Pits/Road Expense	205	100,000	305 25,000	125,000
Drilling / Completion Overhead	206	6,000	306	6,000
Turnkey Contract	207	0	307	0
Footage Contract	208	0	308	0
Daywork Contract	209	380,000	309	380,000
Directional Drilling Services	210	166,000	310	166,000
Fuel & Power	211	84,000	311 10,000	94,000
Water	212	40,000	312 398,000	438,000
Bits	213	69,000	313 4,500	73,500
Mud & Chemicals	214	70,000	314	70,000
Drill Stem Test	215	0	315	0
Coring & Analysis	216	0		0
Cement Surface	217	35,000		35,000
Cement Intermediate	218	50,000		50,000
Cement 2nd Intermediate/Production	218	0	319 90,000	90,000
Cement Squeeze & Other (Kickoff Plug)	220	0	320	0
Float Equipment & Centralizers	221	10,000	321 20,000	30,000
Casing Crews & Equipment	222	20,000	322 20,000	40,000
Fishing Tools & Service	223	0	323	0
Geologic/Engineering	224	0	324	0
Contract Labor	225	15,000	325 125,000	140,000
Company Supervision	226	0	326	0
Contract Supervision	227	28,000	327 50,000	78,000
Testing Casing/Tubing	228	7,000	328	7,000
Mud Logging Unit	229	22,500	329	22,500
Logging	230	0	330 10,000	10,000
Perforating/Wireline Services	231	15,000	331 238,000	253,000
Stimulation/Treating		0	332 2,500,000	2,500,000
Completion Unit		0	333 50,000	50,000
Swabbing Unit		0	334	0
Rentals-Surface	235	75,000	335 250,000	325,000
Rentals-Subsurface	236	75,000	336 25,000	100,000
Trucking/Forklift/Rig Mobilization	237	140,000	337 25,000	165,000
Welding Services	238	5,000	338 7,500	12,500
Water Disposal	239	0	339 280,000	280,000
Plug to Abandon	240	0	340	0
Seismic Analysis	241	0	341	0
Closed Loop & Environmental	244	125,000	344 10,000	135,000
Miscellaneous	242	0	342	0
Contingency	243	78,500	343 50,000	128,500
TOTAL INTANGIBLES		1,634,000	4,188,000	5,822,000

TANGIBLE COSTS				
Surface Casing	401	38,000		38,000
Intermediate Casing	402	97,000	503	97,000
Production Casing		0	503 200,000	200,000
Tubing		0	504 60,000	60,000
Wellhead Equipment	405	20,000	505 35,000	55,000
Pumping Unit		0	506 115,000	115,000
Prime Mover		0	507 20,000	20,000
Rods		0	508 50,000	50,000
Pumps		0	509 22,000	22,000
Tanks		0	510 75,000	75,000
Flowlines		0	511 50,000	50,000
Heater Treater/Separator		0	512 50,000	50,000
Electrical System		0	513	0
Packers/Anchors/Hangers	414	0	514 10,000	10,000
Couplings/Fittings/Valves	415	0	515 160,000	160,000
Gas Compressors/Meters		0	516 8,100	8,100
Dehydrator		0	517	0
Injection Plant/CO2 Equipment		0	518	0
Miscellaneous	419	0	519	0
Contingency	420	8,000	520 43,900	51,900
TOTAL TANGIBLES		163,000	899,000	1,062,000
TOTAL WELL COSTS		1,797,000	5,087,000	6,884,000

COG Operating LLC

Date Prepared: 10/10/2014

COG Operating LLC

We approve:
_____% Working Interest

By: ALEX KORZENIEWSKI AW

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.