



Sent Certified Mail
Receipt No. 91-7199-9991-7033-2437-5884

October 13, 2014

New Mexico State Highway and
Transportation Department
P.O. Box 1149
Santa Fe, NM 78504

RE: **Well Proposal – Pilum 15 Fee #2H**
SHL: 701' FEL & 450' FSL of Section 16
BHL: 330' FSL & 1648' FEL of Section 15
T18S, R26E, Eddy County, New Mexico

BEFORE THE OIL CONSERVATION
DIVISION
Santa Fe, New Mexico
Exhibit No. 3
Submitted by: COG OPERATING LLC
Hearing Date: November 19, 2014

Dear Madam or Sir:

COG Operating LLC ("COG"), as Operator, proposes to drill the Pilum 15 Fee #2H well as a horizontal well at the above-captioned location or at an approved surface location within location unit letter P of Section 16, to a depth of approximately 3000' TVD, 7144' MD to test the Yezo Formation ("Operation"). The total cost of the Operation is estimated to be \$3,267,000 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 13, 2014.

COG is proposing to drill this well under the terms of the modified 1989 AAPL Model Form Operating Agreement ("OA," attached) covering the S ½ of the SW ¼ and the SW ¼ of the SE ¼ of Section 15, T-18-S, R-26-E, with the following general provisions:

- 200/400 Non-consenting penalty
- Drilling and Producing rate:
\$7000 per month drilling well, \$700 per month producing well
- COG named as Operator

If you do not wish to participate in the Operation, COG would like to lease your interest for the following general terms:

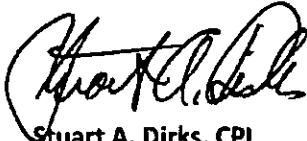
- Three year primary term
- 25% royalty interest, proportionately reduced
- \$1000 per net acre bonus consideration

This offer to acquire your interest is subject to the approval of COG's management and verification of title.

COG will apply to the New Mexico Oil Conservation Division for compulsory pooling for the proposed well. If we do not reach an agreement within 30 days of the date of this letter, your interest will be named in the application.

Technical questions should be directed to Carl Bird at 432-686-3057 and land questions to the undersigned at 432-685-4354.

Yours Truly,
COG Operating LLC

A handwritten signature in black ink, appearing to read "Stuart A. Dirks". The signature is stylized with a large, looping initial "S" and a cursive "A. Dirks".

Stuart A. Dirks, CPL
Senior Landman