



Sent Certified Mail  
Receipt No. 91-7199-9991-7033-2264-5859

February 20, 2015

Yates Brothers, a Partnership  
105 South 4th Street  
Artesia, NM 88210

Attn: Jim Ball

RE: **Well Proposal – Lee 3 Fee #1H**  
SHL: 330' FSL & 380' FWL (Unit M)  
BHL: 330' FNL & 380' FWL (Unit D)  
Section 3, T19S, R26E, Eddy County, New Mexico

Dear Madam or Sir:

COG Operating LLC ("COG"), as Operator, proposes to drill the Lee 3 Fee #1H well as a horizontal well at the above-captioned location or at an approved surface location within location unit letter M, to a depth of approximately 3,235' TVD, 7,750' MD to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$3,099,000 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 Model Form Operating Agreement ("OA") covering the W ½ of the W ½ of Section 3, T-19-S, R-26-E, with the following general provisions (form of OA enclosed):

- 200/500 Non-consenting penalty
- Drilling and Producing rate:  
\$4500/\$450 for vertical wells from surface to 8000'  
\$5450/\$545 for vertical wells below 8000' and horizontal wells all depths
- COG named as Operator

If you wish to participate in the operation please sign and return the AFE. A completed OA will be sent to you for further signatures.

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

- Two year primary term
- 3/16 RI, proportionately reduced
- \$150.00 per net acre bonus consideration

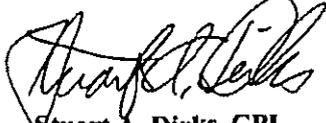
COG will apply to the New Mexico Oil Conservation Division for compulsory pooling for the proposed well. If we do not reach an agreement within 30 days of the date of this letter, your interest will be named in the application.

BEFORE THE OIL CONSERVATION  
DIVISION  
Santa Fe, New Mexico  
Exhibit No. 7  
Submitted by: COG Operating LLC  
Hearing Date: April 2, 2015

If you desire to receive well information regarding the subject operations please return a Well Information Requirements list to COG. 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 written in a cursive, flowing style with some loops and flourishes.

**Stuart A. Dirks, CPL**

Senior Landman

*Enclosure(s) SD/JKF*

**COG OPERATING LLC  
AUTHORITY FOR EXPENDITURE  
DRILLING**

WELL NAME: LEE 3 FEE #1H	PROSPECT NAME: LAKEWOOD/CEMETARY
SHL: 330' FSL & 380' FWL (UL: M)	STATE & COUNTY: New Mexico, Eddy
BHL: 330' FNL & 380' FWL (NO. 4)	OBJECTIVE: SH9 Yeso Horizontal
FORMATION: YESO	DEPTH: 7,750
LEGAL: T19S-R26E, SEC. 3 SWSW	TVD: 3,235

INTANGIBLE COSTS		BCP	ACP	TOTAL
Title/Curative/Permit	201	11,000		11,000
Insurance	202	3,000	302 0	3,000
Damages/Right of Way	203	40,000	303 0	40,000
Survey/Stake Location	204	7,000	304 0	7,000
Location/Pits/Road Expense	205	85,000	305 25,000	110,000
Drilling / Completion Overhead	206	3,000	306 2,000	5,000
Turnkey Contract	207		307	0
Footage Contract	208		308	0
Daywork Contract (0 days /spud-ris @ \$0)	209	130,000	309 0	130,000
Directional Drilling Services (0 dir days @ \$0)	210	95,000	310	95,000
Fuel & Power	211	25,000	311 5,000	30,000
Water	212	24,000	312 105,000	129,000
Bits	213	20,000	313 5,000	25,000
Mud & Chemicals	214	28,000	314 0	28,000
Drill Stem Test	215		315 0	0
Coring & Analysis	216			0
Cement Surface	217	35,000		35,000
Cement Intermediate	218	0		0
Cement 2nd Intermediate/Production	218	0	319 42,000	42,000
Cement Squeeze & Other (Kickoff Plug)	220		320 0	0
Float Equipment & Centralizers	221	2,000	321 18,000	20,000
Casing Crews & Equipment	222	4,250	322 10,200	14,450
Fishing Tools & Service	223		323	0
Geologic/Engineering	224	2,000	324	2,000
Contract Labor	225	29,750	325 42,000	71,750
Company Supervision	226	2,000	326 2,000	4,000
Contract Supervision	227	17,000	327 46,000	63,000
Testing Casing/Tubing	228	2,490	328 4,500	6,990
Mud Logging Unit	229	15,000	329	15,000
Logging	230	18,000	330	18,000
Perforating/Wireline Services	231	1,500	331 130,000	131,500
Stimulation/Treating			332 970,000	970,000
Completion Unit			333 35,000	35,000
Swabbing Unit			334	0
Rentals-Surface	235	13,000	335 240,000	253,000
Rentals-Subsurface	236	23,000	336 15,000	38,000
Trucking/Forklift/Rig Mobilization	237	42,000	337 60,000	102,000
Welding Services	238	5,000	338 3,000	8,000
Water Disposal	239	0	339 20,000	20,000
Plug to Abandon	240	0	340 0	0
Seismic Analysis	241	0	341 0	0
Closed Loop & Environmental	244	56,000	344 0	56,000
Miscellaneous	242	0	342 0	0
Contingency 5%	243	37,010	343 89,300	126,310
<b>TOTAL INTANGIBLES</b>		<b>776,000</b>	<b>1,669,000</b>	<b>2,645,000</b>

TANGIBLE COSTS		BCP	ACP	TOTAL
Surface Casing (8 5/8" 32# J55 LTC)	401	28,000		28,000
Intermediate Casing(2150' 8 5/8" 32# J55 LTC)	402	0	503 0	0
Production Casing (5 1/2" 17# L80)			503 113,000	113,000
Tubing			504 15,000	15,000
Wellhead Equipment	405	5,790	505 18,000	23,790
Pumping Unit			506 54,000	54,000
Prime Mover			507 0	0
Rods			508 11,000	11,000
Pumps			509 63,000	63,000
Tanks			510 19,000	19,000
Flowlines			511 11,000	11,000
Heater Treater/Separator			512 29,000	29,000
Electrical System			513 18,000	18,000
Packers/Anchors/Hangers	414	0	514 2,000	2,000
Couplings/Fittings/Valves	415	500	515 36,000	36,500
Gas Compressors/Meters			516 4,000	4,000
Dehydrator			517	0
Injection Plant/CO2 Equipment			518	0
Miscellaneous	419	500	519 4,000	4,500
Contingency	420	2,210	520 20,000	22,210
<b>TOTAL TANGIBLES</b>		<b>37,000</b>	<b>417,000</b>	<b>454,000</b>
<b>TOTAL WELL COSTS</b>		<b>813,000</b>	<b>2,286,000</b>	<b>3,099,000</b>

COG Operating LLC

By: Carl Bird

Date Prepared: 2/20/2015

JKF

We approve:  
\_\_\_\_\_% Working Interest

COG Operating LLC

By: \_\_\_\_\_

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.