

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION COMMISSION**

**APPLICATION OF COG OPERATING
LLC FOR A NON-STANDARD
SPACING AND PRORATION UNIT
AND COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO**

Case No. 15295

SELF-AFFIRMED STATEMENT OF DAVID MICHAEL WALLACE

I, David Michael Wallace, testify as follows:

1. I am the same David Michael Wallace who testified during the hearing in this case on May 14, 2015. I have personal knowledge of the matters addressed in this Self-Affirmed Statement.

2. I am submitting this Self-Affirmed Statement to address two issues that arose during the May 14, 2015 hearing and resulted in the Examiner continuing the case and COG Operating, LLC ("COG") subsequently taking certain actions. Those issues were: (i) an incorrect property description of the proposed 200-acre non-standard spacing and proration unit ("project area") in COG's application and its hearing notice letters to the uncommitted mineral interest owners; and (ii) COG's discovery of the identities of two uncommitted mineral interest owners after it had sent out its well proposals and hearing notice letters.

3. COG corrected the erroneous property description of the project area in its application by filing an Errata Notice on May 19, 2015.

4. Also on May 19, 2015, COG sent new hearing notice letters via certified mail to all of the uncommitted mineral interest owners, including the two newly-discovered mineral

OCD Case No. 15295

**COG OPERATING
Exhibit # 9**

interest owners, Peggy Neal Pool Marquez and Elizabeth Hogan. The letters correctly described the property comprising the project area.

5. Except for Jeanene Hollis Hall, all uncommitted mineral interest owners, including Ms. Marquez and Ms. Hogan, received the certified mail hearing notice letters sent on May 19th. Ms. Hall has leased her interest to COG. True and correct copies of an exemplar of the notice letters, a listing of the uncommitted mineral interest owners, and certified mail receipt green cards are attached hereto as Exhibit A.

6. The day before the May 14, 2015 hearing, I sent Ms. Hogan a well proposal and AFE via certified mail. On May 19, 2015, I sent a well proposal and AFE to Ms. Marquez via commercial overnight delivery. True and correct copies of the well proposals are attached hereto as Exhibit B.

7. During the May 14, 2015 hearing, I testified that Mitchell A. Cappadonna of Ganado, Texas, himself the owner of a mineral interest in the proposed project area, had informed me that he represents the oil and gas interests of Ms. Marquez and Ms. Hogan, as well as three other owners of mineral interests in the project area. While Mr. Cappadonna has not provided COG with documentation that he has legal authority to represent the interests of five of the other uncommitted mineral interest owners, he did inform me that he represents and advises them regarding oil and gas matters. Mr. Cappadonna has negotiated the terms of a lease of his own mineral interest.

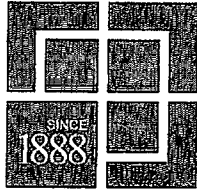
8. I understand that this Self-Affirmed Statement will be used as written testimony in the above-captioned case. I affirm that my testimony in Paragraphs 1 – 7 above is true and correct and is made under penalty of perjury under the laws of the State of New Mexico. My testimony is made as of the date handwritten next to my signature below.



David Michael Wallace

6/10/15

Date



HINKLE SHANOR LLP

ATTORNEYS AT LAW

PO BOX 2068

SANTA FE, NEW MEXICO 87504

505-982-4554 (FAX) 505-982-8623

WRITER:

Gary W. Larson,
Partner

glarson@hinklelawfirm.com

May 19, 2015

VIA CERTIFIED MAIL

Elizabeth Hogan
P.O. Box 624
Ganado, TX 77962

Re: COG Operating LLC NMOCD Application

Dear Ms. Hogan:

Enclosed are copies of (i) an application for approval of a non-standard spacing and proration unit and compulsory pooling that COG Operating LLC ("COG") has filed with the New Mexico Oil Conservation Division ("the Division"), and (ii) an Errata Notice correcting the property description in the application. The proposed non-standard spacing and proration unit is comprised of the W/2 NE/4 and NW/4 SE/4 of Section 5, Township 25 South, Range 35 East and the W/2 SE/4 of Section 32, Township 24 South, Range 35 East, N.M.P.M., Eddy County, New Mexico.

This matter (Division Case No. 15295) is scheduled for hearing at 8:15 a.m. on Thursday, June 11, 2015 in Porter Hall at the Division's offices located at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear at the hearing and present testimony. If you do not appear at that time and become a party of record you will be precluded from contesting the matter at a later date.

A party appearing in a Division case is required by the Division's Rules to file a Pre-Hearing Statement, which in this matter must be filed no later than Thursday June 4, 2015. The Pre-Hearing Statement must be filed with the Division's Santa Fe office at the address above, and should include: the name of the party and the party's attorney; a concise statement of the case; the name(s) of the witness(es) the party will call to testify at the hearing; the approximate amount of time the party will need to present the party's case; and an identification of any procedural matters that need to be resolved prior to the hearing. The Pre-Hearing Statement must also be provided to me.

Thank you for your attention to this matter.

Very truly yours,

Gary W. Larson

**Exhibit
A**

GWL:rc
Enclosures

PO BOX 10
ROSSELL, NEW MEXICO 88202
575-622-6510
(FAX) 575-623-9332

PO BOX 1720
ARTESIA, NEW MEXICO 88210
575-622-6510
(FAX) 575-746-6316

PO BOX 2068
SANTA FE, NEW MEXICO 87504
505-982-4554
(FAX) 505-982-8623

Skull Cap State Com #2H

Mineral Interests:

J & O (Sec. 32):

COG

B G & J (Sec.5):

Jewell Hasford
P.O. Box 624
Ganado, TX 77962

Mitchell A. Cappadona
P.O. Box 624
Ganado, TX 77962

Beulah M. Baird Trust
Norma Baird Loving and Weldon Baird TTEs
C/O Norma Baird Loving
2009 Crockett Court
Irving, TX 75038

Jeanene Hall
P.O. Box 888
Socorro, NM 87801

Shirley Sue Mosley
P.O. Box 624
Ganado, TX 77962

Joe Bill Mosley
P.O. Box 624
Ganado, TX 77962

Peggy Neal Pool Marquez
P.O. Box 624
Ganado, TX 77962

Elizabeth Hogan
P.O. Box 624
Ganado, TX 77962

COG

F	G	H
K	J	I
N Sec. 32	O	P
C	B	A
F	G	H
K	J	I
N Sec. 5	O	P



SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p><input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p><input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="font-size: 1.2em;">Beulah M. Baird Trust Norma Baird Loving and Weldon Baird TTEs c/o Norma Baird Loving 2009 Crockett Court Irving, TX 75038</p>	<p>A. Signature X <i>Norma Loving</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) _____ C. Date of Delivery 5-26-15</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p>2. Article Number: 7012 0470 0001 5963 5343 (Transfer from service label)</p>	
<p>PS Form 3811, July 2013 Domestic Return Receipt</p>	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p><input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p><input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="font-size: 1.2em;">Mitchell A. Cappadonna P.O. Box 624 Ganado, TX 77962</p>	<p>A. Signature X <i>Mitchell A. Cappadonna</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) _____ C. Date of Delivery Carol Cappadonna</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p>3. Service Type <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™ <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery </p>	
<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	
<p>2. Article Number: 7012 0470 0001 5963 5329 (Transfer from service label)</p>	
<p>PS Form 3811, July 2013 Domestic Return Receipt</p>	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p><input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p><input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="font-size: 1.2em;">Jewell Hasford P.O. Box 624 Ganado, TX 77962</p>	<p>A. Signature X <i>Jewell Hasford</i> <input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <p>B. Received by (Printed Name) _____ C. Date of Delivery Carol Cappadonna</p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>
<p>3. Service Type <input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™ <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery </p>	
<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	
<p>2. Article Number: 7012 0470 0001 5963 5336 (Transfer from service label)</p>	
<p>PS Form 3811, July 2013 Domestic Return Receipt</p>	

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p><input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p><input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="font-size: 1.2em; margin-top: 20px;">Elizabeth Hogan P.O. Box 624 Garado, TX 77962</p> <p>2. Article Number _____ (Transfer from service label)</p>	<p>A. Signature _____ <i>[Signature]</i></p> <p><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p> <hr/> <p>B. Received by (Printed Name) _____ C. Date of Delivery _____ <i>Carol Appadourou</i></p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p> <p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p> <p>4. Restricted Delivery? (Extra Fee) _____ <input type="checkbox"/> Yes</p>

SENDER: COMPLETE THIS SECTION	COMPLETE THIS SECTION ON DELIVERY
<p><input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p><input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p> <p>1. Article Addressed to:</p> <p style="font-size: 1.2em;">Peggy Neal Pool Marquez</p> <p style="font-size: 1.2em;">P.O. BOX 624</p> <p style="font-size: 1.2em;">Ganado, TX 77962</p>	<p>A. Signature <div style="border: 1px solid black; padding: 2px; display: inline-block;"> </div> <input checked="" type="checkbox"/> Agent <input type="checkbox"/> Addressee </p> <p>B. Received by (Printed Name) <div style="border: 1px solid black; padding: 2px; display: inline-block;"> Peggy Neal Pool Marquez </div> </p> <p>C. Date of Delivery <div style="border: 1px solid black; padding: 2px; display: inline-block;"> 08/12/2011 </div> </p> <p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No </p>
<p>2. Article Number (Transfer from service label)</p> <div style="border: 1px solid black; padding: 2px; font-family: monospace; font-size: 0.8em;"> 11 1111 11111 1 701210470 0001 5463 53481 </div>	<p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>
<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<p><input checked="" type="checkbox"/> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.</p> <p><input checked="" type="checkbox"/> Print your name and address on the reverse so that we can return the card to you.</p> <p><input checked="" type="checkbox"/> Attach this card to the back of the mailpiece, or on the front if space permits.</p>		<p>A. Signature </p> <p><input type="checkbox"/> Agent <input type="checkbox"/> Addressee</p>	
<p>1. Article Addressed to:</p> <p style="font-size: 1.2em;">Joe Bill Mosley P.O. Box 624 Ganado, TX 77962</p>		<p>B. Received by (Printed Name) C. Date of Delivery</p> <p style="font-size: 1.2em;">Carol Cappadonna</p>	
<p>2. Article Number </p> <p>(Transfer from service label)</p>		<p>D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No</p>	
<p>3. Service Type</p> <p><input checked="" type="checkbox"/> Certified Mail® <input type="checkbox"/> Priority Mail Express™</p> <p><input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise</p> <p><input type="checkbox"/> Insured Mail <input type="checkbox"/> Collect on Delivery</p>		<p>4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes</p>	

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Shirley Sue Mosley
P.O. Box 624
Ganado, TX 77962

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

☐ Agent

☐ Addressee

B. Received by (Printed Name)

and

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail®

☐ Priority Mail Express

☐ Registered

☒ Return Receipt for Merchandise

☐ Insured Mail

☐ Collect on Delivery

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

(Transfer from service label)

7012 0470 0001 5963 5367

PS Form 3811, July 2013

Domestic Return Receipt



CERTIFIED MAIL

May 13, 2015

Elizabeth Hogan
P. O. Box 624
Granado, TX 77962

Re: **Well Proposal – Skull Cap State Com No. 2H**
Sec 32: W/2 SE/4 - T24S-R35E
Sec 5: W/2 NE/4, NW/4 SE/4 - T25S-R35E
SHL: 2590' FSL/1980' FEL, or a legal location in Sec 32 (Unit J)
BHL: 1650' FSL/1980' FEL, or a legal location in Sec 5 (Unit J)
Lea County, New Mexico

Dear Sir/Madam:

COG Operating LLC (COG), as Operator, hereby retracts the Well Proposal for the Deerstalker Fed Com #2H dated February 19th, 2015.

Now therefor, COG hereby proposes to drill the Skull Cap State Com No. 2H well as a horizontal well at the above-captioned location, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 12,423' and a MD of 18,650' to test the Bone Spring Formation ("Operation"). The total cost of the Operation is estimated to be \$13,944,040.00 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 which is enclosed for your review and approval. The Operating Agreement covers Sec 32: W/2 SE/4 - T24S-R35E and Sec 5: W/2 NE/4, NW/4 SE/4 - T25S-R35E. It has the following general provisions:

- 100/300 Non-Consenting Penalty
- \$7,000/\$700 Drilling and Producing Rate
- COG Operating LLC named as Operator

Please indicate your participation election in the space provided below, sign and return this letter, along with a signed copy of the enclosed AFE and a copy of your geologic well requirements. A self-addressed, postage paid envelope is enclosed for your convenience. If you do not wish to participate, COG proposes to acquire your interest via term assignment.

If you have any questions, please do not hesitate to contact the undersigned at 432-221-0465.

Respectfully,

Mike Wallace
Senior Landman

Exhibit

B



_____ I/We hereby elect to participate in the Skull Cap State Com No. 2H.

_____ I/We hereby elect not to participate in the Skull Cap State Com No. 2H.

Company or
Individual Name: Elizabeth Hogan

By: _____
Name: _____
Title: _____
Date: _____

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: Skull Cap State Com #2H	PROSPECT NAME: Bulldog 717008
SHL: (Sec 32) 2590' FSL/1980' FEL	STATE & COUNTY: New Mexico, Lea
BHL: (Sec 5) 1650' FSL/1980' FEL	OBJECTIVE: Drill & Complete
FORMATION: Bone Spring	DEPTH: 18,650 +PH
LEGAL: Sec 32-24S-36E (32J-5J)	TVD: 12,423

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	5,000	303	5,000
Survey/Stake Location	204	7,000	304	7,000
Location/Pits/Road Expense	205	90,000	305 25,000	115,000
Drilling / Completion Overhead	206	9,000	306	9,000
Turnkey Contract	207	0	307	0
Footage Contract	208	0	308	0
Daywork Contract	209	1,215,000	309	1,215,000
Directional Drilling Services	210	279,000	310	279,000
Fuel & Power	211	171,000	311 8,500	179,500
Water	212	45,000	312 700,000	745,000
Bits	213	95,000	313 12,000	107,000
Mud & Chemicals	214	279,000	314 21,250	300,250
Drill Stem Test	215	0	315	0
Coring & Analysis	216	0		0
Cement Surface	217	31,500		31,500
Cement Intermediate	218	58,500		58,500
Cement 2nd Intermediate/Production	219	135,000	319 97,000	232,000
Cement Squeeze & Other (Kickoff Plug)	220	45,000	320 0	45,000
Float Equipment & Centralizers	221	14,000	321 23,000	37,000
Casing Crews & Equipment	222	30,000	322 30,000	60,000
Fishing Tools & Service	223	0	323	0
Geologic/Engineering	224	0	324	0
Contract Labor	225	10,000	325 200,000	210,000
Company Supervision	226	0	326	0
Contract Supervision	227	162,000	327 70,000	232,000
Testing Casing/Tubing	228	10,000	328	10,000
Mud Logging Unit	229	61,000	329	61,000
Logging	230	500,000	330	500,000
Perforating/Wireline Services	231	7,000	331 408,000	415,000
Stimulation/Treating		0	332 5,700,000	5,700,000
Completion Unit		0	333 125,000	125,000
Swabbing Unit		0	334	0
Rentals-Surface	235	178,000	335 275,000	453,000
Rentals-Subsurface	236	225,000	336 55,000	280,000
Trucking/Forklift/Rig Mobilization	237	200,000	337 25,000	225,000
Welding Services	238	5,000	338 5,000	10,000
Water Disposal	239	0	339 499,500	499,500
Plug to Abandon	240	0	340	0
Seismic Analysis	241	0	341	0
Closed Loop & Environmental	244	149,000	344 5,000	154,000
Miscellaneous	242	0	342	0
Contingency	243	74,000	343 50,000	124,000
TOTAL INTANGIBLES		4,105,000	8,331,250	12,436,250

TANGIBLE COSTS				
Surface Casing	401	17,000		17,000
Intermediate Casing	402	508,000	503	508,000
Production Casing		0	503 97,000	97,000
Tubing		0	504 65,000	65,000
Wellhead Equipment	405	24,000	505 34,000	58,000
Pumping Unit		0	506 103,500	103,500
Prime Mover		0	507	0
Rods		0	508 55,000	55,000
Pumps		0	509 36,000	36,000
Tanks		0	510 90,000	90,000
Flowlines		0	511 27,000	27,000
Heater Treater/Separator		0	512 54,000	54,000
Electrical System		0	513 36,000	36,000
Packers/Anchors/Hangers	414	60,000	514 98,000	158,000
Couplings/Fittings/Valves	415	0	515 135,000	135,000
Gas Compressors/Meters		0	516 7,290	7,290
Dehydrator		0	517	0
Injection Plant/CO2 Equipment		0	518	0
Miscellaneous	419	0	519	0
Contingency	420	13,000	520 50,000	63,000
TOTAL TANGIBLES		622,000	885,790	1,507,790
TOTAL WELL COSTS		4,727,000	9,217,040	13,944,040

COG Operating LLC

Date Prepared: 3/23/15

We approve:
_____% Working Interest

COG Operating LLC

Company: Elizabeth Hogan
By: _____

By: Seth Wild / Ken LaFortune

Printed Name: _____
Title: _____
Date: _____

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



CERTIFIED MAIL

May 19, 2015

Peggy Neal Pool Marquez
306 NE 35th St
Grand Prairie, TX 75050

Re: **Well Proposal – Skull Cap State Com No. 2H**
Sec 32: W/2 SE/4 - T24S-R35E
Sec 5: W/2 NE/4, NW/4 SE/4 - T25S-R35E
SHL: 2590' FSL/1980' FEL, or a legal location in Sec 32 (Unit J)
BHL: 1650' FSL/1980' FEL, or a legal location in Sec 5 (Unit J)
Lea County, New Mexico

Dear Sir/Madam:

COG Operating LLC (COG), as Operator, hereby retracts the Well Proposal for the Skull Cap State Com #2H dated February 19th, 2015.

Now therefor, COG hereby proposes to drill the Skull Cap State Com No. 2H well as a horizontal well at the above-captioned location, or at a legal location as approved by the governing regulatory agency, to a TVD of approximately 12,423' and a MD of 18,650' to test the Bone Spring Formation ("Operation"). The total cost of the Operation is estimated to be \$13,944,040.00 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 which is enclosed for your review and approval. The Operating Agreement covers Sec 32: W/2 SE/4 - T24S-R35E and Sec 5: W/2 NE/4, NW/4 SE/4 - T25S-R35E. It has the following general provisions:

- 100/300 Non-Consenting Penalty
- \$7,000/\$700 Drilling and Producing Rate
- COG Operating LLC named as Operator

Please indicate your participation election in the space provided below, sign and return this letter, along with a signed copy of the enclosed AFE and a copy of your geologic well requirements. A self-addressed, postage paid envelope is enclosed for your convenience.

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

- \$750/Net Mineral Acre
- 3 Yr. Primary Term
- Delivery of an 80% NRI, proportionately reduced (1/5 Royalty)



If you have any questions, please do not hesitate to contact the undersigned at 432-221-0465.

Respectfully,

A handwritten signature in black ink, appearing to be "Mike Wallace", written over a horizontal line.

Mike Wallace
Senior Landman

_____ I/We hereby elect to participate in the Skull Cap State Com No. 2H.

_____ I/We hereby elect not to participate in the Skull Cap State Com No. 2H.

Company or

Individual Name: Peggy Neal Pool Marquez

By: _____

Name: _____

Title: _____

Date: _____

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: Skull Cap State Com #2H	PROSPECT NAME: Bulldog 717008
SHL: (Sec 32) 2580' FSL/1980' FEL	STATE & COUNTY: New Mexico, Lea
BHL: (Sec 5) 1650' FSL/1980' FEL	OBJECTIVE: Drill & Complete
FORMATION: Bone Spring	DEPTH: 18,650 +PH
LEGAL: Sec 32-24S-35E (32J-5J)	TVD: 12,423

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	5,000	303	5,000
Survey/Stake Location	204	7,000	304	7,000
Location/Pits/Road Expense	205	90,000	305 25,000	115,000
Drilling / Completion Overhead	206	9,000	306	9,000
Turnkey Contract	207	0	307	0
Footage Contract	208	0	308	0
Daywork Contract	209	1,215,000	309	1,215,000
Directional Drilling Services	210	278,000	310	278,000
Fuel & Power	211	171,000	311 8,500	179,500
Water	212	45,000	312 700,000	745,000
Bits	213	95,000	313 12,000	107,000
Mud & Chemicals	214	279,000	314 21,250	300,250
Drift Stem Test	215	0	315	0
Coring & Analysis	216	0		0
Cement Surface	217	31,500		31,500
Cement Intermediate	218	58,500		58,500
Cement 2nd Intermediate/Production	218	135,000	319 97,000	232,000
Cement Squeeze & Other (Kickoff Plug)	220	45,000	320 0	45,000
Float Equipment & Centralizers	221	14,000	321 23,000	37,000
Casing Crews & Equipment	222	30,000	322 30,000	60,000
Fishing Tools & Service	223	0	323	0
Geologic/Engineering	224	0	324	0
Contract Labor	225	10,000	325 200,000	210,000
Company Supervision	226	0	326	0
Contract Supervision	227	182,000	327 70,000	232,000
Testing Casing/Tubing	228	10,000	328	10,000
Mud Logging Unit	229	61,000	329	61,000
Logging	230	500,000	330	500,000
Perforating/Wireline Services	231	7,000	331 408,000	415,000
Stimulation/Treating		0	332 5,700,000	5,700,000
Completion Unit		0	333 125,000	125,000
Swabbing Unit		0	334	0
Rentals-Surface	235	178,000	335 275,000	453,000
Rentals-Subsurface	236	225,000	336 55,000	280,000
Trucking/Forklift/Rig Mobilization	237	200,000	337 25,000	225,000
Welding Services	238	5,000	338 5,000	10,000
Water Disposal	239	0	339 498,500	498,500
Plug to Abandon	240	0	340	0
Seismic Analysis	241	0	341	0
Closed Loop & Environmental	244	149,000	344 5,000	154,000
Miscellaneous	242	0	342	0
Contingency	243	74,000	343 50,000	124,000
TOTAL INTANGIBLES		4,105,000	8,331,250	12,436,250

TANGIBLE COSTS				
Surface Casing	401	17,000		17,000
Intermediate Casing	402	508,000	503	508,000
Production Casing		0	503 97,000	97,000
Tubing		0	504 65,000	65,000
Wellhead Equipment	405	24,000	505 34,000	58,000
Pumping Unit		0	506 103,500	103,500
Prime Mover		0	507	0
Rods		0	508 55,000	55,000
Pumps		0	509 36,000	36,000
Tanks		0	510 90,000	90,000
Flowlines		0	511 27,000	27,000
Heater Treater/Separator		0	512 54,000	54,000
Electrical System		0	513 36,000	36,000
Packers/Anchors/Hangers	414	60,000	514 96,000	156,000
Couplings/Fittings/Valves	415	0	515 135,000	135,000
Gas Compressors/Meters		0	518 7,290	7,290
Dehydrator		0	517	0
Injection Plant/CO2 Equipment		0	518	0
Miscellaneous	419	0	519	0
Contingency	420	13,000	520 50,000	63,000
TOTAL TANGIBLES		622,000	888,790	1,507,790
TOTAL WELL COSTS		4,727,000	9,217,040	13,944,040

COG Operating LLC

Date Prepared: 3/23/15

We approve:
% Working Interest

COG Operating LLC

By: Seth Wild / Ken LaFortune

Company: Peggy Neal Pool Marquez
By:

Printed Name:
Title:
Date:

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