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October 7, 2015

Yates Petroleum Corporation
Abo Petroleum Corporation
MYCO Industries, Inc.
105 South 4th Street
Artesia, NM 88210

Attn: Ms. Janet Richardson

RE: **Well Proposal – Custer 16 State #4H**
SHL: 150' FSL & 990' FEL (Unit P)
BHL: 330' FNL & 990' FEL (Unit A)
Section 16, T19S, R26E, Eddy County, New Mexico

Dear Ms. Richardson,

COG Operating LLC ("COG"), as Operator, proposes to drill the Custer 16 State #4H well at the captioned location, or at an approved surface location within Unit Location P, to a depth of approximately 3,490' TVD, 8,290' MD, to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$2,562,350 and a detailed description of such 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. Enclosed is a 1989 AAPL form Operating Agreement. The Operating Agreement covers (T19S-R26E, Section 16 ALL). It has the following general provisions:

- 200/500 Non-consenting penalty
- \$5,450.00/\$545.00 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 1.00% ORRI, proportionately reduced
- \$250.00 per net acre bonus consideration

If an agreement cannot be negotiated 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 for the proposed well.

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 Stuart Dirks at 432-685-4354.

Yours Truly,
COG Operating LLC

Stuart A. Dirks, CPL
Senior Landman

Enclosure(s)
SD/JKF

BEFORE THE OIL CONSERVATION
DIVISION
Santa Fe, New Mexico
Exhibit No. 12
Submitted by: COG OPERATING
Hearing Date: December 17, 2015

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: CUSTER 16 STATE #4H	PROSPECT NAME: LAKEWOOD/CEMETARY
SHL: 150' FSL & 990' FEL (UL - P)	STATE & COUNTY: New Mexico, Eddy
BHL: 330' FNL & 990' FEL (UL - A)	OBJECTIVE: Yeso Horizontal
FORMATION: YESO	DEPTH: 8,290
LEGAL: T19S-R26E, SEC. 16 (E2E2)	TVD: 3,490

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 65,000	305 6,000	71,000
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 f/spud-ris @ \$0)	209 125,000	309 0	125,000
Directional Drilling Services (0 dir days @ \$0)	210 73,000	310	73,000
Fuel & Power	211 17,000	311 3,000	20,000
Water	212 24,000	312 57,000	81,000
Bits	213 20,000	313 5,000	25,000
Mud & Chemicals	214 25,000	314 0	25,000
Drill Stem Test	215	315 0	0
Coring & Analysis	216		0
Cement Surface	217 30,000		30,000
Cement Intermediate	218 0		0
Cement 2nd Intermediate/Production	218 0	319 36,000	36,000
Cement Squeeze & Other (Kickoff Plug)	220	320 0	0
Float Equipment & Centralizers	221 1,100	321 7,000	8,100
Casing Crews & Equipment	222 3,420	322 8,000	11,420
Fishing Tools & Service	223	323	0
Geologic/Engineering	224	324	0
Contract Labor	225 5,000	325 44,000	49,000
Company Supervision	226 2,000	326 2,000	4,000
Contract Supervision	227 15,000	327 38,000	53,000
Testing Casing/Tubing	228 2,490	328 3,000	5,490
Mud Logging Unit	229 15,000	329	15,000
Logging	230 18,000	330	18,000
Perforating/Wireline Services	231 1,500	331 110,000	111,500
Stimulation/Treating	231	332 897,000	897,000
Completion Unit	231	333 18,000	18,000
Swabbing Unit	231	334	0
Rentals-Surface	235 12,000	335 158,000	170,000
Rentals-Subsurface	236 22,000	336 7,000	29,000
Trucking/Forklift/Rig Mobilization	237 45,000	337 52,000	97,000
Welding Services	238 4,750	338 2,850	7,600
Water Disposal	239 0	339 6,000	6,000
Plug to Abandon	240 0	340 0	0
Seismic Analysis	241 0	341 0	0
Closed Loop & Environmental	244 35,000	344 0	35,000
Miscellaneous	242 0	342 0	0
Contingency 2%	243 13,740	343 7,500	21,240
TOTAL INTANGIBLES	639,000	1,469,350	2,108,350

TANGIBLE COSTS	BCP	ACP	TOTAL
Surface Casing (8 5/8" 32# J55 LTC)	401 22,000		22,000
Intermediate Casing (8 5/8" 32# J55 LTC)	402 0	503 0	0
Production Casing (5 1/2" 17# L80)	402	503 96,000	96,000
Tubing	402	504 12,000	12,000
Wellhead Equipment	405 5,500	505 16,150	21,650
Pumping Unit	405	506 54,000	54,000
Prime Mover	405	507 0	0
Rods	405	508 11,000	11,000
Pumps	405	509 55,000	55,000
Tanks	405	510 12,000	12,000
Flowlines	405	511 15,000	15,000
Heater Treater/Separator	405	512 56,000	56,000
Electrical System	405	513 30,000	30,000
Packers/Anchors/Hangers	414 0	514 2,000	2,000
Couplings/Fittings/Valves	415 500	515 55,000	55,500
Gas Compressors/Meters	415	516 3,000	3,000
Dehydrator	415	517	0
Injection Plant/CO2 Equipment	415	518	0
Miscellaneous	419 500	519 7,000	7,500
Contingency	420 500	520 850	1,350
TOTAL TANGIBLES	29,000	425,000	454,000
TOTAL WELL COSTS	668,000	1,894,350	2,562,350

COG Operating LLC

By: Carl Bird

Date Prepared: 10/6/15 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.