



Sent via Certified Return Receipt:

August 17, 2016

Ard Oil Ltd.
Attention: Mr. Julian Ard
224 W. 4th Street, PH 5
Fort Worth, TX 76102

Re: **Well Proposal – Nelson Federal Com 13H**
T17S-R32E, E2W2 of Section 10
T17S-R32E, E2NW of Section 15
SHL: 2358' FSL & 1895' FWL, Section 15 (Or an approved location within Unit K)
BHL: 330' FNL & 1650' FWL, Section 10 (Or an approved location within Unit C)
Lea County, New Mexico

Dear Working Interest Owner,

COG Operating LLC (COG), as Operator, proposes to drill the Nelson Federal Com 13H well as a horizontal well at the above-captioned location to a TVD of approximately 5,775' to test the Yeso Formation ("Operation"). The total cost of the Operation is estimated to be \$4,661,000 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 form of Operating Agreement modified for horizontal development, enclosed herein. The Operating Agreement covers, T17S-R32E, E/2NW/4 of Section 15, and the E/2W/2 of Section 10, Lea County, New Mexico. It has the following general provisions:

- 100/300 Non-consenting penalty
- \$7,000/\$700 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 interest per the terms of that certain offer letter dated August 17, 2016 provided by COG, and enclosed herewith.

If we do not reach an agreement 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 have any questions, please do not hesitate to contact me at 432-685-2590 or by email at jmartin1@concho.com.

Respectfully,
COG OPERATING LLC

James Martin
Landman

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 3
Submitted by:
COG OPERATING LLC
Hearing Date: October 27, 2016