

July 6, 2012

VIA CERTIFIED MAIL

Working Interest Owners
Listed on Exhibit "A"

RE: Zeus 1932 Prospect (717093)
Haas 6 Federal Com #1H
N2N2 of Section 6: T19S-R32E
Lea County, New Mexico

Gentlemen:

COG Operating LLC ("COG") hereby proposes the drilling of a horizontal well to a depth sufficient to adequately test the 2nd Bone Spring formation at a total measured depth being approximately 13,870'. The surface location for this well is proposed at a legal location in Unit A with a bottom hole location at a legal location in Unit D, with the dedicated project area being the N2N2 of Section 6, Township 19 South, Range 32 East, Lea County, New Mexico. Included herewith is our Authority for Expenditure ("AFE") in the gross amount of \$5,975,215, being the total estimated cost to drill and complete said well.

COG is proposing to drill this well under the terms of a modified 1989 A.A.P.L Form 610 Model Form Operating Agreement, which is enclosed herewith for your review and execution. The Operating Agreement covers Lot 1, NE4NW4, and N2NE4 of Section 6: Township 19 South, Range 32 East, Lea County, New Mexico. It has the following general provisions:

- 400/400 Non-consenting penalty
- \$6,500/\$650 Drilling and Producing rate
- COG named as Operator

Please have the appropriate party execute, notarize and return one (1) original of each signatory page, being the Operating Agreement and Recording Memorandum or Exhibit "H". If you do not wish to participate in the proposed Operation, COG would like to acquire a Term Assignment of your leasehold for the following general terms:

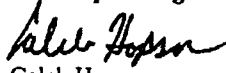
- One (1) year primary term
- Delivering a 80% NRI, proportionately reduced
- \$ 1,500 per net acre bonus consideration

This Term Assignment offer is subject to the approval of COG's management and verification of title.

Please indicate your participation election in the space provided on the following page, sign and return this letter, along with a signed copy of the enclosed AFE and a copy of your geologic well requirements, to my attention at the letterhead address. You may also fax your response to 432.221.0856 or by email to chopson@concho.com.

Should you have any questions, please do not hesitate to contact me at 432.686.3049.

Sincerely,
COG Operating LLC


Caleb Hopson
Landman

ch/ar
Enclosures:

_____ I/We hereby elect to participate in the Haas 6 Federal Com #1H.

_____ I/We hereby elect not to participate in the Haas 6 Federal Com #1H.

Company: _____

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT "A"
WORKING INTEREST OWNERS

COG Operating LLC
550 W. Texas Avenue, Suite 100
Midland, Texas 79701
Attn: Caleb Hopson
Phone: (432) 686-3049
Fax: (432) 221-0856
Email: chopson@concho.com

Concho Oil & Gas LLC
550 W. Texas Avenue, Suite 100
Midland, TX 79701

Watson Oil & Gas Properties LLC
P.O. Box 10
Hobbs, NM 88241

Lynx Petroleum Consultants
P.O. Box 1708
Hobbs, NM 88241

Elliot-Hall Company
P.O. Box 1231
Ogden, UT 84402-1231

Elliot Industries
P.O. Box 1355
Roswell, NM 88202

McVay Drilling Company
P.O. Box 2450
Hobbs, NM 88241

Powder Horn Investments
P.O. Box 2503
Hobbs, NM 88241

Javelina Partners
616 Texas Street
Fort Worth, TX 76102

Fonay Oil & Gas
P.O. Box 1708
Hobbs, NM 88241

Moutray Properties
P.O. Box 1598
Carlsbad, NM 88221

Travco Resources
P.O. Box 1708
Hobbs, NM 88241

Zorro Partners
616 Texas St
Fort Worth, TX 76102

Merrion Oil & Gas Corporation
610 Reilly Ave
Farmington, NM 87401

Apache Corporation
2000 Post Oak Boulevard, Suite 100
Houston, Texas 77056-4400

Devon Energy Production Company, L.P.
20 N Broadway Ave
Oklahoma City, OK 73102

Lowell B. Deckert
720 W Cielo
Hobbs, NM 88240

W. Wes Perry Oil & Gas Inc.
P.O. Box 371
Midland, TX 79702

Seven Rivers, Inc.
P.O. Box 1598
Carlsbad, NM 88241

COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING

OBJECTIVE:	Haas 6 Federal Com #1H	PROSPECT NAME:	Zeus 717093
SHL:	330' FNL & 380' FEL	STATE & COUNTY:	New Mexico, Lea
BHL:	380' FNL & 330' FWL	WELL NAME:	TVD 9,250' MD 13,870' No PH
FORMATION:	2nd BSS	DEPTH:	13,870
LEGAL:	Sec 6-T19S-R32E		

INTANGIBLE COSTS		BCP		ACP		TOTAL
Title/Curative/Permit	201	10,000				10,000
Insurance	202	22,000	302	0		22,000
Damages/Right of Way	203	15,000	303	0		15,000
Survey/Stake Location	204	3,000	304	0		3,000
Location/Pits/Road Expense	205	80,000	305	25,000		105,000
Drilling / Completion Overhead	206	5,000	306	1,000		6,000
Turnkey Contract	207	0	307	0		0
Footage Contract	208	0	308	0		0
Daywork Contract (0 days /spud-ris @ \$0)	209	425,000	309	0		425,000
Directional Drilling Services (0 dir days @ \$0)	210	175,000	310	0		175,000
Fuel & Power	211	130,000	311	0		130,000
Water	212	125,000	312	140,000		265,000
Bits	213	77,500	313	4,500		82,000
Mud & Chemicals	214	50,000	314	0		50,000
Drill Stem Test	215	0	315	0		0
Coring & Analysis	216	0				0
Cement Surface	217	30,000				30,000
Cement Intermediate	218	100,000				100,000
Cement 2nd Intermediate 7"	218	0	319	125,000		125,000
Cement Squeeze & Other (Kickoff Plug)	220	0	320	0		0
Float Equipment & Centralizers	221	50,000	321	15,000		65,000
Casing Crews & Equipment	222	15,000	322	30,000		45,000
Fishing Tools & Service	223	0	323	0		0
Geologic/Engineering	224	10,000	324	1,000		11,000
Contract Labor	225	10,000	325	70,000		80,000
Company Supervision	226	2,000	326	2,000		4,000
Contract Supervision	227	37,800	327	35,000		72,800
Testing Casing/Tubing	228	7,000	328	0		7,000
Mud Logging Unit (logging 1/24 days)	229	24,000	329	0		24,000
Logging	230	25,000	330	0		25,000
Perforating/Wireline Services	231	10,000	331	100,000		110,000
Stimulation/Treating			332	1,700,000		1,700,000
Completion Unit			333	75,000		75,000
Swabbing Unit			334	0		0
Rentals-Surface	235	75,000	335	200,000		275,000
Rentals-Subsurface	236	100,000	336	40,000		140,000
Trucking/Forklift/Rig Mobilization	237	90,000	337	25,000		115,000
Welding Services	238	5,000	338	7,500		12,500
Water Disposal	239	0	339	227,500		227,500
Plug to Abandon	240	0	340	0		0
Seismic Analysis	241	0	341	0		0
Closed Loop & Environmental	244	175,000	344	10,000		185,000
Miscellaneous	242	5,000	342	0		5,000
Contingency	243	94,415	343	150,000		244,415
TOTAL INTANGIBLES		1,982,715		2,983,500		4,966,215

TANGIBLE COSTS		BCP		ACP		TOTAL
Surface Casing (655' 13 3/8" 54.5# J55 STC)	401	36,000				36,000
Intermediate Casing(4050' 9 5/8" 36#/40# J55 BUTT)	402	125,000	503	0		125,000
Production Casing (13,450' 5 1/2" 17# N80/P110)			503	240,000		240,000
Tubing			504	60,000		60,000
Wellhead Equipment	405	20,000	505	25,000		45,000
Pumping Unit			506	97,000		97,000
Prime Mover			507	20,000		20,000
Rods			508	50,000		50,000
Pumps			509	4,500		4,500
Tanks			510	46,000		46,000
Flowlines			511	3,000		3,000
Heater Treater/Separator			512	65,000		65,000
Electrical System			513	0		0
Packers/Anchors/Hangers	414	0	514	1,200		1,200
Couplings/Fittings/Valves	415	0	515	115,000		115,000
Gas Compressors/Meters			516	8,100		8,100
Dehydrator			517	0		0
Injection Plant/CO2 Equipment			518	0		0
Miscellaneous	419	0	519	0		0
Contingency	420	19,000	520	74,200		93,200
TOTAL TANGIBLES		200,000		809,000		1,009,000
TOTAL WELL COSTS		2,182,715		3,792,500		5,975,215

COG Operating LLC

Date Prepared: 5/16/12

We approve:
_____% Working Interest

COG Operating LLC

Seth Wild - Drlg

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.