



January 26, 2016

To: Working Interest Owners - Listed on Attached Exhibit "A"

**Re: Well Proposal – Picasso Federal Com #1H
Township 24 South, Range 34 East, N.M.P.M.
Section 9: E/2E/2
SHL: 190' FSL & 660' FEL (or at a legal location in Unit P)
BHL: 330' FNL & 660' FEL (or at a legal location in Unit A)
Lea County, New Mexico**

Dear Working Interest Owners:

COG Operating LLC ("COG"), as Operator, proposes to drill the Picasso Federal Com #1H well as a horizontal well at the above-captioned location to a TVD of approximately 10,955' and a MD of 15,500' to test the Bone Spring Formation ("Operation"). The total cost of the Operation is estimated to be \$7,599,950 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 ("OA") which is enclosed for your review and approval. The Operating Agreement covers the E/2E/2 of Section 9, T-24S, R-34E, Lea Co., 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 your leasehold via farmout under the following general terms:

- Delivery of a 75% NRI, proportionately reduced
- Option to convert ORRI after 100% payout to a 25% WI, proportionately reduced

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

Please indicate your participation election in the space provided below. Please return executed copies of this letter, the AFE, signature pages to the OA, the executed Exhibit "H", and a copy of your geologic well requirements. A self-addressed, postage-paid envelope is enclosed for your convenience.

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

Sincerely,

**Mike Wallace
Senior Landman**

**BEFORE THE OIL CONVERSATION
DIVISION
Santa Fe, New Mexico
Exhibit No. 4
Submitted by: COG OPERATING LLC
Hearing Date: March 31, 2016**

Picasso Federal Com #1H
Working Interest Owners
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_____ I/We hereby elect to participate in the Picasso Federal Com #1H.

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

Company: _____

By: _____

Name: _____

Title: _____

Date: _____

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: PICASSO FEDERAL COM #1H	PROSPECT NAME: BULLDOG 2434 (717040)
SHL: 190 FSL & 660 FEL	STATE & COUNTY: New Mexico, Lea
BHL: 330 FNL & 660 FEL	OBJECTIVE: DRILL & COMPLETE
FORMATION: DBSS/2ND BSS	DEPTH: 15,500
LEGAL: 9-24S-34E	TVD: 10,955

INTANGIBLE COSTS		BCP	ACP	TOTAL
Title/Curative/Permit	201	11,000		11,000
Insurance	202	4,000	302	4,000
Damages/Right of Way	203	5,000	303	5,000
Survey/Stake Location	204	8,000	304	8,000
Location/Pits/Road Expense	205	80,000	305	112,000
Drilling / Completion Overhead	206	8,000	306	8,000
Turnkey Contract	207	0	307	0
Footage Contract	208	0	308	0
Daywork Contract	209	390,000	309	390,000
Directional Drilling Services	210	126,000	310	126,000
Fuel & Power	211	49,000	311	8,500
Water	212	75,000	312	645,000
Bills	213	60,000	313	3,000
Mud & Chemicals	214	42,000	314	22,000
Drill Stem Test	215	0	315	0
Coring & Analysis	216	0		0
Cement Surface	217	31,350		31,350
Cement Intermediate	218	52,250		52,250
Cement 2nd Intermediate/Production	218	0	319	128,250
Cement Squeeze & Other (Kickoff Plug)	220	0	320	0
Float Equipment & Centralizers	221	22,000	321	12,000
Casing Crews & Equipment	222	18,000	322	16,000
Fishing Tools & Service	223	0	323	0
Geologic/Engineering	224	0	324	0
Contract Labor	225	6,500	325	156,200
Company Supervision	226	0	326	0
Contract Supervision	227	38,000	327	70,000
Testing Casing/Tubing	228	10,000	328	10,000
Mud Logging Unit	229	18,000	329	18,000
Logging	230	0	330	0
Perforating/Wireline Services	231	4,000	331	300,000
Stimulation/Treating		0	332	2,350,000
Completion Unit		0	333	80,000
Swabbing Unit		0	334	0
Rentals-Surface	235	80,000	335	176,000
Rentals-Subsurface	236	85,500	336	40,000
Trucking/Forklift/Rig Mobilization	237	100,000	337	45,000
Welding Services	238	4,000	338	5,000
Water Disposal	239	0	339	654,000
Plug to Abandon	240	0	340	0
Seismic Analysis	241	0	341	0
Closed Loop & Environmental	244	140,000	344	5,000
Miscellaneous	242	0	342	0
Contingency	243	30,000	343	50,000
TOTAL INTANGIBLES		1,495,600	4,812,950	6,308,550

TANGIBLE COSTS				
Surface Casing	401	46,000		46,000
Intermediate Casing	402	126,000	503	126,000
Production Casing		0	503	209,000
Tubing		0	504	45,000
Wellhead Equipment	405	25,000	505	20,000
Pumping Unit		0	506	102,000
Prime Mover		0	507	0
Rods		0	508	45,000
Pumps		0	509	55,000
Tanks		0	510	90,000
Flowlines		0	511	0
Heater Treater/Separator		0	512	95,000
Electrical System		0	513	50,000
Packers/Anchors/Hangers	414	0	514	8,000
Couplings/Fittings/Valves	415	0	515	220,000
Gas Compressors/Meters		0	516	35,000
Dehydrator		0	517	0
Injection Plant/CO2 Equipment		0	518	0
Miscellaneous	419	0	519	70,000
Contingency	420	0	520	50,000
TOTAL TANGIBLES		197,000	1,094,000	1,291,000
TOTAL WELL COSTS		1,692,600	5,906,950	7,599,550

COG Operating LLC

Date Prepared: 1/8/2016

We approve:
_____% Working Interest

COG Operating LLC

By: TRAVIS NEWMANKEN LAFORTUNE KG

Company: Hewley Investment 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.