

BC OPERATING, INC

PO Box 50820 Midland Texas 79710
Office (432) 684 9696 Fax (432) 686 0600

May 17th 2017

VIA USPS CERTIFIED MAIL, RETURN RECEIPT REQUESTED

State of New Mexico Oil Conservation Division
Attn David R Catanach
1220 S St Francis Drive #3
Santa Fe New Mexico 87505

Re **Compulsory Pooling Order R 14227 and R 14227A – Final AFE Notification**
Section 34 Township 24 South Range 28 East
Eddy County New Mexico

*Kyle 34 Federal Com #5H (Well)
Section 34 T24S R28E Eddy County NM
SHL 225 FSL & 990 FEL
BHL 330 FNL & 990 FEL*

Mr Catanach

As you are aware BC Operating Inc (BC) recently proposed to drill the referenced Well which is currently subject to Compulsory Pooling Order No R 142227 and R 42227 A (collectively Order) A copy of the approved Order is enclosed herewith

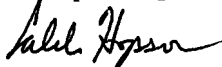
Per the Order After the effective date of this order the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling completing and equipping the proposed well Enclosed for your review please find our Authority for Expenditure (AFE) in the amount of \$6 844 840 00 which represents the total estimated cost to drill complete and equip the Well

Please note that a copy of the enclosed AFE Order and participation election has been sent to all pooled working interest owners

If you have any questions or prefer to discuss this letter in greater detail please do not hesitate to give me a call at 432 253 7762

Sincerely

BC Operating, Inc



Caleb Hopson
(432) 253 7762 Office
(806) 898 1717 Cell
chopson@bcoperating.com

Enclosures AFE Order

BC Operating, Inc
Authorization for Expenditure

Well Name	Kyle 34 Federal Com #5H	Prospect	Wolfcamp No Pilot Hole	
Location	SHL 225 FSL 990 FEL BHL 330 FNL 990 FEL	County	EDDY	ST NM
Section	34	Horizontal TVD	10 575ft	Prop Depth 15 100ft MD
Township	24S	Range	28E	

INTANGIBLE COST	Code	TCP	Code	CC ACP
Legal Drilling Title Opinion	4 01	\$25 000		
Location Roads Conductor Damages ROW Frac Pit	4 36	\$100 000	5 28	\$25 000
Day work Drilling Cost \$14 500/day 35 Days TCP 4 Days ACP	4 15	\$507 500	5 12	\$60 000
Fuel \$4 000/day	4 66	\$140 000	4 66	\$16 000
Mud	4 51	\$125 000		\$15 000
Cementing 13 3/8 9 5/8 7 Casing 4 1/2 Liner	4 06	\$100 000		\$40 000
Logging Gyro Cased Hole CBL Perforating	4 39	\$15 000		\$15 000
Casing Crews Laydown Machine	4 05	\$20 000	5 05	\$40 000
Mud Logging and Geosteering	4 52	\$25 000		
Stimulation Pressure Pumping Service			5 80	\$2 000 000
Stimulation Surface Rentals Transfer Services etc			5 61	\$200 000
Water	4 84	\$50 000	5 66	\$200 000
Bits	4 03	\$85 000	5 04	\$5 000
Drill String Inspection	4 31	\$5 000	5 31	\$35 000
Rig Mobilization	4 14	\$75 000		
Transportation Surf CSG Surface Rentals Prod CSG Drill pipe etc	4 78	\$10 000	5 92	\$45 000
Directional Drilling 20 days at \$8 500/day	4 16	\$212 500		
Surface Rentals \$4 000/day	4 61	\$140 000	5 61	\$75 000
Sub Surface Rentals Drill Pipe Stabilization Mud Motor etc	4 62	\$75 000		\$75 000
Overhead	4 18	\$5 000	5 18	\$5 000
Supervision	4 72	\$42 000	5 84	\$16 800
Well Control Insurance	4 87	\$7 500		
Welding Cut off Casing Set Slips etc	4 08	\$6 000	5 77	\$3 000
Pulling Unit/Completion Unit			5 09	\$30 000
Testing BOP/Nipple up Crews	4 04	\$20 000		\$10 000
Drill String Corrosion	4 12	\$8 000		
Trucking Clean Pits SWD Solids Disposal			5 66	\$175 000
Float Equipment	4 23	\$30 000		\$0
Coil Tubing and N2			5 53	\$150 000
Battery Flowline Electric Line Installation			5 77	\$50 000
Contingencies 10% TCP 5% CC		\$182 850		\$164 290
TOTAL		\$2 011 350		\$3 450 090

TANGIBLE	Code	TCP	Code	CC ACP
Surface Casing 13 3/8 J 55 54 5# 400ft at \$31/ft	6 71	\$12 400		
Intermediate Casing 9 5/8 36# J 55 2 500ft @ \$29/ft	6 32	\$72 500		
Production Casing 72 26# P 110 11 000ft @ \$23/ft	6 32	\$264 000		
Production Liner 4 1/2 11 6# P 110 4 500ft @\$15/ft		\$67 500	6 60	
Tubing 2 7/8 6 5# L 80 9 500ft @ \$7 00/ft			6 80	\$66 500
Wellhead	6-84	\$15 000	6-84	\$15 000
Down hole Equipment Gas Lift Valves			6 56	\$25 000
Liner Hanger & NCS Sleeves			6 56	\$465 000
Pumping Unit			6 68	\$0
Tanks			6 76	\$175 000
Separator Heater Treater			6-24	\$55 500
Metering Equipment			6-44	\$10 000
Flowline Equipment			6 42	\$15 000
Valves Connections Fittings			6 12	\$50 000
Electrical Equipment			6 14	\$75 000
TOTAL		\$431 400		\$952 000
TOTAL TANGIBLE AND INTANGIBLE		\$2 442 750		\$4 402 090
TOTAL WELL COST				\$6 844 840

Created by Jason Goss

Date 5/17/2017

Joint Owner _____

Joint Owner Approval _____

By _____ **Date** _____