AUTHORITY FOR EXPENDITURE - Drlg Est. — *SM Energy*

Date:	4/30/2013	**Lease / Well Number:**	Osage 34 Federal 1H
Prepared By:	Michael Mataalii & Malcolm Kintzing	**Location:**	Sec 34 - T19S - 29E
Prospect Name:	Bone Spring Horizontal		SHL. 450 FNL 330 FEL
County, State:	Eddy, NM		BHL. 330 FNL 330 FWL
Projected Total Depth:	12491' VS 4,631'	**Primary Objectives:**	Bone Spring

NOTES

Daywork Contract - Horiz. Oil Well - Closed Loop System - No Pilot Hole
3 Csg Strings, Packer Plus
Assumes regulatory agent approves casing program
Note all pipe prices may be subject to increase due to market fluctuations

It is recognized that the amounts provided here are estimates only and approval of this authorization shall extend to actual costs incurred in conducting the operations specified, whether more or less than estimated.

Intan. Drilling Costs BCP

		COSTS
750 235 Abandonment & Cleanup	$	30,000
750 205 Environmental/Safety	$	17,145
750 020 Insurance	$	10,000
750 010 Legal, Permits & Fees	$	10,000
750 010 Staking Location & Surveys	$	1,600
750 025 Location, Road & ROW	$	125,000
750 035 IDC Daywork Days 33.0 $/Day 19900	$	656,700
750 060 Mobilization / Demobilization	$	220,325
750 075 Rig Fuel Days 33.0 $/Day 4180	$	137,940
750 040 IDC Footage $/Ft	$	-
750 175 Supervision(Consultants) Days 37.5 $/Day 3750	$	140,625
750 230 Operating Overhead	$	32,800
750 065 Bits & Reamers	$	77,500
750 130 Rentals Surface	$	284,515
750 135 Rentals Sub-Surface	$	123,340
750 135 Drill Pipe / Motors Days 5 $/Day 4500	$	22,500
750 115 Casedhole Log/Perf/Wire	$	6,000
750 062 Directional Services	$	260,000
750 095 Inspection - Drill String	$	15,000
750 095 Well Control & Testing	$	24,000
750 195 Miscellaneous IDC	$	10,250
750 125 Mud Logging Days 20 $/Day 2155	$	58,090
750 170 Contract Labor	$	100,000
750 180 Transportation	$	50,000
750 080 Surface Casing Crews	$	10,000
750 085 Surface Cement and Cement Services	$	60,000
751 055 Surface Float Equipment & Centralizers	$	2,200
750 080 1st Intermediate Surface Casing Crews	$	12,000
750 085 1st Intermediate Cement and Cement Services	$	45,000
750 055 1st Intermediate Float Equipment and Centralizers	$	5,000
750 080 2nd Intermediate Surface Casing Crews	$	15,000
750 085 2nd Intermediate Cement and Cement Services	$	55,000
751 055 2nd Intermediate Float Equipment & Centralizers	$	5,000
750 080 3rd Intermediate Surface Casing Crews	$	20,000
750 085 3rd Intermediate Cement and Cement Services	$	45,000
751 055 3rd Intermediate Float Equipment & Centralizers	$	5,000
750 070 Mud & Additives	$	75,000
750 070 Corrosion Control & Chem	$	10,000
750 070 Water	$	100,000
750 210 Water / Mud Disposal	$	150,000
750 140 Pump Truck	$	12,000
Contingency (10%)	$	302,753
TOTAL	**$**	**3,342,283**

Intan. Formation Testing BCP

		COSTS
750 110 Logging & Wireline	$	7,500
750 120 Drill Stem - Formation Tests	$	-
750 120 Coring & Analysis (Sidewall Cores)	$	-
Contingency (10%)	$	750
TOTAL	**$**	**8,250**

Tangible Lease & Well Equipment BCP

		COSTS
751 015 Conductor Pipe		$0
751 025 Surface Casing 20" $/F: 109 Feet: 340	$	40,766
751 030 Intermediate Csg 13-3/8" $/F: 43 Feet: 1500	$	70,950
751 030 Intermediate Csg 9-5/8" $/Ft: 29 Feet: 3550	$	113,245
751 030 Intermediate Csg 7" $/Ft: 30 Feet: 8451	$	278,883
751 020 Casing Head	$	12,000
751 075 Wellhead Equipment	$	17,000
750 025 Cattle Guards	$	-
Contingency (5%)	$	26,642
TOTAL EQUIPMENT	**$**	**559,486**

TOTAL DRILLING	$	3,910,019
TOTAL INTANGIBLE	$	4,874,479

Intan. Comp. Costs ACP

		COSTS
750 235 Abandonment & Cleanup	$	(30,000)
755 040 IDC Daywork Days: 3.5 $/Day 19900	$	69,650
755 075 Rig Fuel Days: 3.5 $/Day: 4180	$	14,630
755 175 Drilling Rig Supervision Days: 3.5 $/Day 3750	$	13,125
755 080 Production Casing Crews	$	20,000
755 085 Production Casing Cement & Services	$	-
760 055 Prod. Float Equipment & Centralizers	$	6,000
755 045 Completion / Swab Unit Days 0 $/Day 0	$	28,000
755 165 Compl. Rig Supervision Days: 0 $/Day 650	$	9,000
755 230 Operating Overhead	$	-
755 152 Water Transfer	$	40,000
755 140 Water Hauling	$	80,000
755 115 Logging, Perforations & Wireline	$	10,000
755 135 Rentals Subsurface	$	25,000
755 130 Rentals Surface	$	125,000
755 057 Nitrogen Service & Coiled Tubing	$	-
755 100 Fishing	$	-
755 145 Stimulation	$	750,000
755 180 Transportation	$	25,000
755 170 Contract Labor & Roustabout	$	25,000
755 065 Bits & Reamers	$	-
760 070 Couplings & Fittings	$	-
755 025 Location & Road Expense	$	25,000
755 195 Miscellaneous IDC/Special Services	$	-
755 095 Pipe Inspection & Recondition	$	-
755 127 Flowback Rental	$	75,000
755 210 Disposal	$	75,000
755 150 Swabbing Unit	$	-
Contingency (10%)	$	138,541
TOTAL	**$**	**1,523,946**

Tangible Well Equipment ACP

		COSTS
760 040 Prod. Csg / Liner 4-1/2" $/Ft: 12 Feet: 4500	$	59,400
760 040 Packers System	$	265,000
760 040 Tubing " $/Ft: 0 Feet:	$	50,000
760 075 Wellhead	$	10,000
760 065 Rods & Pump	$	30,000
760 060 Subsurface Equipment	$	6,000
Contingency (5%)	$	21,020
TOTAL EQUIPMENT	**$**	**441,420**

Tangible Lease & Battery Equipment ACP

		COSTS
760 090 Pumping Unit /Prime Mover	$	200,000
760 120 Separator /Heater Treater	$	70,000
760 095 Tanks /Walkways /Stairway	$	100,000
760 100 Meter / Meter Run	$	8,000
760 110 Flowline /Connections	$	24,000
760 070 Valves /Fittings	$	83,000
760 105 Pwline Dsgn/Install/Eq	$	22,000
760 135 Installation Costs	$	75,000
Contingency (10%)	$	58,200
TOTAL EQUIPMENT	**$**	**640,200**

TOTAL COMPLETION	$	2,605,566
TOTAL TANGIBLE	$	1,641,106

TOTAL DRY HOLE COST	$	4,017,165
TOTAL WELL COST	$	6,515,585

Date: 4/30/2013

Joint Interest Approval

Company: Company SME

By: ______________ Date ____________ By *Michael Mataalii*

NMOCD CASE NO. 15018
JULY 11, 2013
SM ENERGY EX. NO. 4