



VIA FedEx Overnight

April 20, 2015

OXY USA WTP, LLC
Attention: Mark E. Hodge
5 Greenway Plaza
Houston, TX 77046

Re: **Well Proposal – Salvador Fee #3H**
E/2 W/2 of Section 10:T24S-R34E: Unit Area
SHL: 190' FSL & 1,470' FWL, or a legal location in Unit N
BHL: 330' FNL & 1,980' FWL, or a legal location in Unit C
Lea County, New Mexico

Gentlemen:

COG Operating LLC ("COG"), as Contract Operator for COG Production LLC, proposes to drill the Salvador Fee #3H well as a horizontal well at the above-captioned location to a TVD of approximately 11,000' and a MD of approximately 15,600' to test the Bone Spring Formation ("Operation"). The total cost of the Operation is estimated to be \$6,655,040.00 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 which is enclosed for your review and approval. The Operating Agreement covers the W/2 of Section 10-T24S-R34E, Lea Co., NM. 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 80% 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, 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 mwallace@concho.com.



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

Sincerely,

COG Production LLC

Mike Wallace
Senior Landman

_____ I/We hereby elect to participate in the Salvador Fee #3H.

_____ I/We hereby elect **not** to participate in the Salvador Fee #3H.

Company: OXY USA WTP, LLC

By: _____

Name: _____

Title: _____

Date: _____

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

WELL NAME: SALVADOR FEE #3H	PROSPECT NAME: BULLDOG 2434 (717040)
SHL: 190 FSL & 1470 FWL	STATE & COUNTY: New Mexico, Lea
BHL: 330 FNL & 1980 FWL	OBJECTIVE: DRILL & COMPLETE
FORMATION: DBSS/2ND BSS	DEPTH: 15,600
LEGAL: 10-24S-34E	TVD: 11,000

<u>INTANGIBLE COSTS</u>		<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
Title/Cursive/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	7,000	304	7,000
Location/Pits/Road Expense	205	80,000	305	20,000
Drilling / Completion Overhead	206	8,000	306	8,000
Turnkey Contract	207	0	307	0
Footage Contract	208	0	308	0
Daywork Contract	209	400,000	309	400,000
Directional Drilling Services	210	145,000	310	145,000
Fuel & Power	211	58,000	311	8,500
Water	212	53,000	312	370,000
Bits	213	64,000	313	6,000
Mud & Chemicals	214	50,000	314	21,250
Drill Stem Test	215	0	315	0
Coring & Analysis	216	0		0
Cement Surface	217	33,000		33,000
Cement Intermediate	218	55,000		55,000
Cement 2nd Intermediate/Production	218	0	319	135,000
Cement Squeeze & Other (Kickoff Plug)	220	0	320	0
Float Equipment & Controllers	221	22,000	321	14,000
Casing Crawls & Equipment	222	15,000	322	17,000
Fishing Tools & Service	223	0	323	0
Geologic/Engineering	224	0	324	0
Contract Labor	225	8,000	325	176,500
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	21,000	329	21,000
Logging	230	0	330	0
Perforating/Wireline Services	231	8,000	331	192,000
Stimulation/Treating	0	0	332	2,200,000
Completion Unit	0	0	333	80,000
Swabbing Unit	0	0	334	0
Rentals-Surface	235	85,000	335	185,000
Rentals-Subsurface	236	85,000	336	20,000
Trucking/Forklift/Rig Mobilization	237	115,000	337	45,000
Welding Services	238	4,000	338	5,000
Water Disposal	239	0	339	362,000
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	36,000	343	80,000
TOTAL INTANGIBLES		1,558,000	3,982,250	5,540,250

<u>TANGIBLE COSTS</u>				
Surface Casing	401	54,000		54,000
Intermediate Casing	402	138,000	503	138,000
Production Casing		0	503	234,000
Tubing		0	504	85,000
Wellhead Equipment	405	15,000	505	15,000
Pumping Unit		0	506	103,500
Prime Mover		0	507	0
Rods		0	508	55,000
Pumps		0	509	36,000
Tanks		0	510	90,000
Flowlines		0	511	27,000
Heater Treater/Separator		0	512	54,000
Electrical System		0	513	36,000
Packers/Anchors/Hangers	414	0	514	0
Couplings/Fittings/Valves	415	0	515	135,000
Gas Compressors/Meters		0	516	7,290
Dehydrator		0	517	0
Injection Plant/CO2 Equipment		0	518	0
Miscellaneous	419	0	519	0
Contingency	420	0	520	50,000
TOTAL TANGIBLES		207,000		807,790
TOTAL WELL COSTS		1,785,000	4,890,040	6,855,040

COG Operating LLC

Date Prepared: 4/14/2015

We approve:
_____% Working Interest

COG Operating LLC

By: ALEX KORZENIEWSKI KG

Company: Occidental Permian Ltd
By: _____

Printed Name:
Title:
Date:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.