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November 2nd 2016

VIA EMAIL

To Magic Merlin Energy Investment
6210 N 52nd Place
Paradise Valley AZ 85253

Re **Well Proposal Letter**
Sections 25 & 36 Township 24 South Range 28 East
Eddy County New Mexico

*Southern Comfort 25 36 State Com X #2H (Well)
Sections 25 & 36 T24S R28E Eddy County NM
SHL 2490 FSL & 1300 FEL Section 25
BHL 240 FSL & 1300 FEL Section 36*

Gentlemen

BC Operating Inc (BC) as Operator hereby proposes to form a 480 00 acre Working Interest Unit (WIU) covering the Southeast Quarter of Section 25 and the East Half of Section 36 Township 24 South Range 28 East Eddy County New Mexico limited in depth from 7300 subsurface being the Base of the Bone Spring Lime formation as seen on the Composite Gearhart Dual Laterolog and Schlumberger Dual Induction Log run on August 27th 1984 of the Craft 25 Com #1 Well API# 30 015 24922 located in Section 25 Township 24 South Range 28 East Eddy County New Mexico to the center of the Earth The proposed WIU shall supersede any existing Operating Agreements governing same lands

In reference to the above BC as Operator hereby proposes to drill the captioned Well at the referenced surface hole location (SHL) to the referenced bottom hole location (BHL) The Well will be drilled to a true vertical depth (TVD) of approximately 9 750 feet subsurface to evaluate the ~~Upper Wolfcamp Shale interval of the Wolfcamp formation~~ for oil and gas production The proposed well will have a horizontal measured depth (MD) of approximately 17 750 feet The SE/4 of Section 25 and the E/2 of Section 36 will be dedicated to the well as the pooled proration unit and project area Enclosed herewith please find our Authority for Expenditure (AFE) in the amount of \$9 292 238 00 which represents the total estimated cost to drill and complete the Well

BC is proposing to drill the Well under the terms of a modified 1989 AAPL form of Operating Agreement which will be mailed under separate cover The proposed Operating Agreement shall govern operations of the WIU described above and will have the following general provisions

- 100/300/300 Non consenting penalty
- \$7 000/\$700 Drilling and Producing rate
- BC Operating Inc named as Operator

If you do not wish to participate in the Well and WIU BC would like to acquire your leasehold for the following general terms

- \$2 000 per net mineral acre
- Delivering full net revenue interest

Please indicate your participation election in the space provided below and execute and return a copy of the enclosed AFE and Well Proposal Letter within thirty (30) days of receipt of this notice. If you have any questions or prefer to discuss this Well Proposal Letter in greater detail please do not hesitate to give me a call at 432 253 7725

Sincerely

BC Operating, Inc

Brandon Gianfala CPL
(432) 253 7725 Office
(337) 356 7233 Cell
bgianfala@bcoperating.com

Enclosures AFE

PARTICIPATION ELECTION

Please elect of the following and return to sender

_____ I/We hereby elect to participate in the Well and proposed WIU for our proportionate share of the costs detailed in the enclosed AFE associated with the Well

_____ I/We hereby elect NOT to participate in the Well and proposed WIU

_____ I/We elect NOT to participate in the Well and proposed WIU and hereby elect to sell our leasehold interest for the general terms described above

NAME/COMPANY _____

SIGNATURE _____

NAME _____

DATE _____

BC Operating, Inc.

Authorization for Expenditure

Well Name:	Southern Comfort 25-36 State Com X #2H	Prospect:	Wolfcamp - No Pilot Hole, 7,500ft Lateral
Location:	SHL: 2,490' FSL & 1,300' FEL, SEC 25; BHL 240' FNL & 1,300' FEL, SEC 36	County:	Eddy
		ST:	NM
Section:	25 & 36	Horizontal TVD:	9,750ft
		Township:	T24S
		Range:	R28E
		Prop. Depth:	17,750ft MD

INTANGIBLE COST	Code	TCP	Code	CC-ACP
Legal: Drilling Title Opinion		\$25,000		
Location, Roads, Conductor, Damages, ROW, Frac Pit		\$100,000		\$5,000
Day work Drilling Cost: \$14,500/day 30 Days TCP, 3 Days ACP		\$435,000		\$43,500
Fuel \$3,500/day		\$105,000		\$10,500
Mud		\$85,000		\$15,000
Cementing: 13-3/8", 9-5/8", 7" Casing, 4-1/2" Liner		\$90,000		\$40,000
Logging: Gyro, Cased Hole CBL, Perforating		\$2,500		\$270,000
Casing Crews, Laydown Machine		\$25,000		\$20,000
Mud Logging and Geosteering		\$25,300		
Stimulation: Pressure Pumping Service				\$5,183,000
Stimulation: Surface Rentals, Transfer Services, etc.				\$108,000
Water		\$35,000		\$525,000
Bits		\$90,000		\$5,000
Drill String Inspection/damage repairs		\$5,000		\$35,000
Rig Mobilization		\$95,000		
Transportation: Directional tools, Surface Rentals, Rental Drill pipe, etc.		\$30,000		\$5,000
Directional Drilling 25 days at \$7,000/day		\$175,000		
Surface Rentals: \$4,000/day; including solids control and housing		\$120,000		\$76,695
Sub Surface Rentals: Drill Pipe, Stabilization, etc.		\$55,000		\$2,000
Overhead		\$5,000		\$5,000
Supervision		\$96,000		\$49,500
Welding, Cut off Casing, Set Slips, etc.		\$9,000		\$3,000
Flow back crew and Iron				\$67,000
Pulling Unit/Completion Unit				\$5,500
Testing BOP/Nipple up Crews		\$12,000		\$7,500
Drill String Corrosion		\$8,000		
Trucking Clean Pits, SWD, Solids Disposal		\$100,000		\$50,000
Float Equipment		\$18,000		\$0
Coil Tubing and N2				\$90,000
Battery, Flowline, Electric Line Installation				\$14,430
Contingencies 5% TCP 5% CC		\$87,290		\$46,381
TOTAL		\$1,833,090		\$6,682,006
TANGIBLE				
Surface Casing: 13-3/8" J-55, 54.5#, BTC; 400ft at \$24/ft		\$9,600		
Intermediate Casing: 9-5/8" 36# J-55, BTC; 2,500ft @ \$20/ft		\$50,000		
Production Casing: 7" 26#, P-110; 10,250ft, BTC @ \$20/ft		\$205,000		
Production Liner: 4-1/2" 11.6#, P-110, BTC 8,000ft @ \$11/ft		\$88,000		
Tubing: 2-7/8" 6.5# L-80; 9,250ft @ \$3.65/ft				\$33,763
Wellhead		\$21,000		\$14,250
Down hole Equipment: Gas Lift Valves and Packer				\$34,960
Liner Hanger				\$55,000
Telemetry				\$52,951
Tanks and Other pressure vessels				\$93,740
Separators- Heater Treater				\$30,107
Pad Construction				\$15,000
Flowline Equipment				\$3,500
Valves, Connections, Fittings				\$36,396
Electrical Connections				\$33,875
TOTAL		\$373,600		\$403,541
TOTAL TANGIBLE AND INTANGIBLE		\$2,206,690		\$7,085,548
TOTAL WELL COST				\$9,292,238

Created by: Jason Goss

Date: 10/25/2016

Joint Owner: _____

Joint Owner Approval: _____

By: _____

Date: _____