



January 12, 2018

VIA CERTIFIED MAIL

McCully - Chapman Exploration, Inc.  
PO Box 421  
Sealy, TX 77474

RE: Black River 3-10 Federal WCA 2H  
W2W2 Sections 3 & 10: T24S-R26E  
Eddy County, New Mexico

Gentlemen,

Chisholm Energy Operating, LLC ("Chisholm") hereby proposes the drilling of the Black River 3-10 Federal WCA 2H in Sections 3 & 10, Township 24 South, Range 26 East, Eddy County, New Mexico. The surface location for this well is proposed at a legal location in Section 3 Lot 3 with a bottom hole at a legal location in Section 10 Unit M (see attached plat for further detail). The well will have a targeted interval in the Wolfcamp formation to a Measured Depth of approximately 18,210'. Included herewith is our Authority for Expenditure ("AFE") in the gross amount of \$6,994,556, being the total estimated cost to drill and complete said well.

Chisholm 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 W/2 of Sections 3 & 10, Township 24 South, Range 26 East, limited from the surface to the bottom of the Wolfcamp Formation. It has the following general provisions:

- 100/300 Non-consenting penalty
- \$7,000/\$700 Drilling and Production rate
- Chisholm Energy Operating, LLC named as Operator
- Initial Well Black River 3-10 Federal WCA 2H

McCully - Chapman Exploration, Inc. will own an approximate 0.5876% working interest in the well, subject to title verification. 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.

Should you have any questions, please do not hesitate to contact myself at 817-953-0480.

Very truly yours,

Chisholm Energy Operating, LLC

Davis Armour  
Senior Landman

☒ I/We hereby elect to participate in the Black River 3-10 Federal WCA 2H.

☐ I/We hereby elect NOT to participate in the Black River 3-10 Federal WCA 2H.

Company: McCully - Chapman Exploration, Inc.

By:   
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Address: Chisholm Energy Operating, LLC 801 Cherry Street Suite 1200 Unit 20 Fort Worth, TX 76102



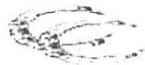
BEFORE THE OIL CONSERVATION  
DIVISION

Santa Fe, New Mexico

Exhibit No. 3

Submitted by: Chisholm Energy Operating LLC

Hearing Date: April 5, 2018



CHISHOLM  
ENERGY

### Statement of Estimated Well Cost (100%)

Well: Black River 3-10 Federal WCA 2H  
Field: Wolfcamp  
County, State: Lea, NM  
BHL: Horizontal  
Proposed TD: 18,210 MD 8,650 TVD AFE#  
Normal Pressure? Yes

		BCP	ACP	TOTAL
<b>COSTS TO CASING POINT: TANGIBLES</b>				
8510-400	Conductor Casing or Drive Pipe	\$15,000		\$15,000
8510-405	Surface Casing	\$10,647		\$10,647
8510-410	Intermediate Casing/Drilg Liner	\$30,368		\$30,368
8510-415	Wellhead Equipment - Surface & MLS	\$10,500		\$10,500
8510-420	Other Sub-Surface Equipment	\$0		
8510-425	Cementing Equipment	\$8,000		\$8,000
8510-600	Nonoperated	\$0		
8510-700	Impairment	\$0		
8510-999	Accruals	\$0		
	<b>TOTAL COST TO CASING POINT - TANGIBLES</b>	<b>\$74,515</b>		<b>\$74,515</b>
<b>COSTS TO CASING POINT: INTANGIBLES</b>				
8500-100	Roads/Location	\$67,000		\$67,000
8500-105	Drilling Turnkey	\$0		
8500-110	Drilling Daywork	\$495,000		\$495,000
8500-115	Fuel/Power	\$120,000		\$120,000
8500-125	Equipment Rental	\$165,000		\$165,000
8500-130	Legal Fees	\$0		
8500-135	Bonds, Permits and Inspection	\$50,000		\$50,000
8500-155	Mud and Chemicals	\$150,000		\$150,000
8500-160	Cementing Services	\$29,000		\$29,000
8500-170	Supervision/Consulting	\$60,800		\$60,800
8500-175	Casing and Other Tangible Crew	\$24,000		\$24,000
8500-180	Damages/Penalties	\$0		
8500-185	Coring and Analysis	\$0		
8500-190	Cuttings/Fluids Disposal	\$125,000		\$125,000
8500-195	Directional Drilling Services	\$338,500		\$338,500
8500-200	Drill Bits	\$60,000		\$60,000
8500-210	Surface Damages/ROW	\$0		
8500-215	Contract Labor and Services	\$2,500		\$2,500
8500-220	Mud Logging	\$37,500		\$37,500
8500-235	Reclamation	\$0		
8500-240	Rig Mobilization/Demob	\$83,000		\$83,000
8500-245	Fishing Tools and Services	\$0		
8500-250	Testing-Drill Stem/Production	\$0		
8500-260	Wireline Services	\$18,000		\$18,000
8500-265	Water	\$18,250		\$18,250
8500-270	Camp Expenses	\$52,600		\$52,600
8500-285	Contingencies	\$0		
8500-290	Environmental	\$0		
8500-300	Overhead	\$6,000		\$6,000
8500-350	Insurance	\$0		
8500-600	Nonoperated	\$0		
8500-700	Impairment	\$0		
8500-999	Accruals	\$0		
	<b>TOTAL COST TO CASING POINT - INTANGIBLES</b>	<b>\$1,902,150</b>		<b>\$1,902,150</b>
<b>COMPLETION COSTS: TANGIBLES</b>				
8530-415	Wellhead		\$21,900	\$21,900
8530-420	Subsurface Equipment		\$15,000	\$15,000

8530-500	Production Casing			\$217,974	\$217,974
8530-510	Tubing			\$42,818	\$42,818
8530-515	Rods			\$0	
8530-525	Artificial Lift Equipment			\$25,000	\$25,000
8530-530	Gas Metering Equipment			\$48,000	\$48,000
8530-535	LACT Unit			\$0	
8530-540	Production Facilities and Flowlines			\$120,000	\$120,000
8530-545	Pumping Unit			\$100,000	\$100,000
8530-550	Separator, Heater, Treater			\$75,000	\$75,000
8530-555	Tank Battery			\$118,000	\$118,000
8530-560	Vapor Recovery Unit			\$0	
8530-590	Other Misc Equipment			\$15,000	\$15,000
8530-600	Nonoperated			\$0	
8530-700	Impairment			\$0	
8530-999	Accruals			\$0	
	TOTAL COMPLETION COST - TANGIBLES			\$798,691	\$798,691
	COMPLETION COSTS: INTANGIBLES				
8520-100	Roads/Location			\$20,000	\$20,000
8520-120	Perforating Services			\$157,500	\$157,500
8520-125	Equipment Rental			\$193,000	\$193,000
8520-135	Bonds, Permits and Inspection			\$0	
8520-145	Completion Unit			\$48,000	\$48,000
8520-150	Frac Plugs			\$67,500	\$67,500
8520-155	Mud and Chemicals			\$128,000	\$128,000
8520-160	Cementing Services			\$60,000	\$60,000
8520-165	Acidizing and Fracturing			\$2,610,000	\$2,610,000
8520-170	Supervision/Consulting			\$42,000	\$42,000
8520-175	Casing and Other Tangible Crew			\$15,000	\$15,000
8520-190	Cuttings/Fluids Disposal			\$120,000	\$120,000
8520-200	Drill Bits			\$6,000	\$6,000
8520-210	Surface Damages/ROW			\$0	
8520-215	Contract Labor and Services			\$5,000	\$5,000
8520-230	Pump/Vacuum Trucks			\$40,000	\$40,000
8520-235	Reclamation			\$0	
8520-245	Fishing Tools and Services			\$0	
8520-250	Well Testing			\$84,000	\$84,000
8520-255	Trucking and Hauling			\$0	
8520-260	Wireline Services			\$5,000	\$5,000
8520-270	Camp Expenses			\$25,200	\$25,200
8520-275	Coiled Tubing Services			\$0	
8520-280	Frac Water			\$593,000	\$593,000
8520-285	Contingencies			\$0	
8520-290	Environmental			\$0	
8520-300	Overhead			\$0	
8520-350	Insurance			\$0	
8520-600	Nonoperated			\$0	
8520-700	Impairment			\$0	
8520-999	Accruals			\$0	
	TOTAL COMPLETION COST - INTANGIBLES			\$4,219,200	\$4,219,200
	TOTAL WELL COST			\$1,976,665	\$5,017,891
					\$6,994,556

Approved by: *Ken Kneek* *Ken Kneek* Date: *2-15-18*  
*Vice President*  
*McConn-Charman Exploration, Inc.*

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_



January 12, 2018

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McCully - Chapman Exploration, Inc.  
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Sealy, TX 77474

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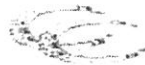
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☐ I/We hereby elect NOT to participate in the Black River 3-10 Federal WCA 3H.

Company: **McCully - Chapman Exploration, Inc.**

By:   
Name: \_\_\_\_\_  
Title: Vice President  
Date: 1-15-18

Address: Chisholm Energy Operating, LLC 801 Cherry Street Suite 1200 Unit 20 Fort Worth, TX 76102



CHISHOLM  
ENERGY

Statement of Estimated Well Cost (100%)

Well \_\_\_\_\_ Black River 3-10 Federal WCA 3H  
Field \_\_\_\_\_ Wolfcamp  
County, State: \_\_\_\_\_ Lea, NM  
BHL: \_\_\_\_\_ Horizontal  
Proposed TD: \_\_\_\_\_ 18,000 MD \_\_\_\_\_ 8,650 TVD AFE#  
Normal Pressure? Yes

		BCP	ACP	TOTAL
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8510-415	Wellhead Equipment - Surface & MLS	\$10,500		\$10,500
8510-420	Other Sub-Surface Equipment	\$0		
8510-425	Cementing Equipment	\$8,000		\$8,000
8510-600	Nonoperated	\$0		
8510-700	Impairment	\$0		
8510-999	Accruals	\$0		
	<b>TOTAL COST TO CASING POINT - TANGIBLES</b>	<b>\$74,515</b>		<b>\$74,515</b>
<b>COSTS TO CASING POINT: INTANGIBLES</b>				
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8500-105	Drilling Turnkey	\$0		
8500-110	Drilling Daywork	\$495,000		\$495,000
8500-115	Fuel/Power	\$120,000		\$120,000
8500-125	Equipment Rental	\$165,000		\$165,000
8500-130	Legal Fees	\$0		
8500-135	Bonds, Permits and Inspection	\$50,000		\$50,000
8500-155	Mud and Chemicals	\$150,000		\$150,000
8500-160	Cementing Services	\$29,000		\$29,000
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8500-265	Water	\$18,250		\$18,250
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8530-500	Production Casing			\$215,460	\$215,460
8530-510	Tubing			\$42,818	\$42,818
8530-515	Rods			\$0	
8530-525	Artificial Lift Equipment			\$25,000	\$25,000
8530-530	Gas Metering Equipment			\$48,000	\$48,000
8530-535	LACT Unit			\$0	
8530-540	Production Facilities and Flowlines			\$120,000	\$120,000
8530-545	Pumping Unit			\$100,000	\$100,000
8530-550	Separator, Heater, Treater			\$75,000	\$75,000
8530-555	Tank Battery			\$118,000	\$118,000
8530-560	Vapor Recovery Unit			\$0	
8530-590	Other Misc Equipment			\$15,000	\$15,000
8530-600	Nonoperated			\$0	
8530-700	Impairment			\$0	
8530-999	Accruals			\$0	
	<b>TOTAL COMPLETION COST - TANGIBLES</b>			<b>\$796,178</b>	<b>\$796,178</b>
	<b>COMPLETION COSTS: INTANGIBLES</b>				
8520-100	Roads/Location			\$20,000	\$20,000
8520-120	Perforating Services			\$157,500	\$157,500
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	<b>TOTAL WELL COST</b>		<b>\$1,921,165</b>	<b>\$5,015,378</b>	<b>\$6,936,543</b>

Approved by: *John Krensek* Date: *2-15-18*  
*Vice President*  
*McClure-Chapman Exploration, Inc.*

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_





January 12, 2018

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PO Box 421  
Sealy, TX 77474

RECEIVED

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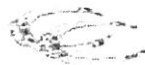
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By:   
Name: Davis Armour  
Title: Vice President  
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ENERGY

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	COMPLETION COSTS: INTANGIBLES				
8520-100	Roads/Location			\$20,000	\$20,000
8520-120	Perforating Services			\$157,500	\$157,500
8520-125	Equipment Rental			\$193,000	\$193,000
8520-135	Bonds, Permits and Inspection			\$0	
8520-145	Completion Unit			\$48,000	\$48,000
8520-150	Frac Plugs			\$67,500	\$67,500
8520-155	Mud and Chemicals			\$128,000	\$128,000
8520-160	Cementing Services			\$60,000	\$60,000
8520-165	Acidizing and Fracturing			\$2,610,000	\$2,610,000
8520-170	Supervision/Consulting			\$42,000	\$42,000
8520-175	Casing and Other Tangible Crew			\$15,000	\$15,000
8520-190	Cuttings/Fluids Disposal			\$120,000	\$120,000
8520-200	Drill Bits			\$6,000	\$6,000
8520-210	Surface Damages/ROW			\$0	
8520-215	Contract Labor and Services			\$5,000	\$5,000
8520-230	Pump/Vacuum Trucks			\$40,000	\$40,000
8520-235	Reclamation			\$0	
8520-245	Fishing Tools and Services			\$0	
8520-250	Well Testing			\$84,000	\$84,000
8520-255	Trucking and Hauling			\$0	
8520-260	Wireline Services			\$5,000	\$5,000
8520-270	Camp Expenses			\$25,200	\$25,200
8520-275	Coiled Tubing Services			\$0	
8520-280	Frac Water			\$593,000	\$593,000
8520-285	Contingencies			\$0	
8520-290	Environmental			\$0	
8520-300	Overhead			\$0	
8520-350	Insurance			\$0	
8520-600	Nonoperated			\$0	
8520-700	Impairment			\$0	
8520-999	Accruals			\$0	
	TOTAL COMPLETION COST - INTANGIBLES			\$4,219,200	\$4,219,200
	TOTAL WELL COST		\$1,921,165	\$5,015,378	\$6,936,543

Approved by:

*Jan Kunkel*  
*Jan Kunkel*  
 Vice President  
 McCally-Chapman Exploration, Inc

Date:

*2-15-18*

Approved by:

Date:

Approved by:

Date: