

July 6, 2012

VIA CERTIFIED MAIL

Working Interest Owners
Listed on Exhibit "A"

RE: Zeus 1932 Prospect (717093)
Haas 6 Federal Com #1H
N2N2 of Section 6:T19S-R32E
Lea County, New Mexico

Gentlemen:

COG Operating LLC ("COG") hereby proposes the drilling of a horizontal well to a depth sufficient to adequately test the 2nd Bone Spring formation at a total measured depth being approximately 13,870'. The surface location for this well is proposed at a legal location in Unit A with a bottom hole location at a legal location in Unit D, with the dedicated project area being the N2N2 of Section 6, Township 19 South, Range 32 East, Lea County, New Mexico. Included herewith is our Authority for Expenditure ("AFE") in the gross amount of \$5,975,215, being the total estimated cost to drill and complete said well.

COG is proposing to drill this well under the terms of a modified 1989 A.A.P.L Form 610 Model Form Operating Agreement, which is enclosed herewith for your review and execution. The Operating Agreement covers Lot 1, NE4NW4, and N2NE4 of Section 6: Township 19 South, Range 32 East, Lea County, New Mexico. It has the following general provisions:

- 400/400 Non-consenting penalty
- \$6,500/\$650 Drilling and Producing rate
- COG named as Operator

Please have the appropriate party execute, notarize and return one (1) original of each signatory page, being the Operating Agreement and Recording Memorandum or Exhibit "H". If you do not wish to participate in the proposed Operation, COG would like to acquire a Term Assignment of your leasehold for the following general terms:

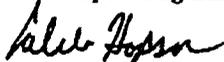
- One (1) year primary term
- Delivering a 80% NRI, proportionately reduced
- \$ 1,500 per net acre bonus consideration

This Term Assignment offer is subject to the approval of COG's management and verification of title.

Please indicate your participation election in the space provided on the following page, 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 chopson@concho.com.

Should you have any questions, please do not hesitate to contact me at 432.686.3049.

Sincerely,
COG Operating LLC


Caleb Hopson
Landman

ch/ar
Enclosures:

_____ I/We hereby elect to participate in the Haas 6 Federal Com #1H.

_____ I/We hereby elect not to participate in the Haas 6 Federal Com #1H.

Company: _____

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT "A"
WORKING INTEREST OWNERS

COG Operating LLC
550 W. Texas Avenue, Suite 100
Midland, Texas 79701
Attn: Caleb Hopson
Phone: (432) 686-3049
Fax: (432) 221-0856
Email: chopson@concho.com

Concho Oil & Gas LLC
550 W. Texas Avenue, Suite 100
Midland, TX 79701

Watson Oil & Gas Properties LLC
P.O. Box 10
Hobbs, NM 88241

Lynx Petroleum Consultants
P.O. Box 1708
Hobbs, NM 88241

Elliot-Hall Company
P.O. Box 1231
Ogden, UT 84402-1231

Elliot Industries
P.O. Box 1355
Roswell, NM 88202

McVay Drilling Company
P.O. Box 2450
Hobbs, NM 88241

Powder Horn Investments
P.O. Box 2503
Hobbs, NM 88241

Javelina Partners
616 Texas Street
Fort Worth, TX 76102

Fonay Oil & Gas
P.O. Box 1708
Hobbs, NM 88241

Moutray Properties
P.O. Box 1598
Carlsbad, NM 88221

Travco Resources
P.O. Box 1708
Hobbs, NM 88241

Zorro Partners
616 Texas St
Fort Worth, TX 76102

Merrion Oil & Gas Corporation
610 Reilly Ave
Farmington, NM 87401

Apache Corporation
2000 Post Oak Boulevard, Suite 100
Houston, Texas 77056-4400

Devon Energy Production Company, L.P.
20 N Broadway Ave
Oklahoma City, OK 73102

Lowell B. Deckert
720 W Cielo
Hobbs, NM 88240

W. Wes Perry Oil & Gas Inc.
P.O. Box 371
Midland, TX 79702

Seven Rivers, Inc.
P.O. Box 1598
Carlsbad, NM 88241

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

OBJECTIVE: Haas 6 Federal Com #1H	PROSPECT NAME: Zeus 717093
SHL: 330' FNL & 380' FEL	STATE & COUNTY: New Mexico, Lea
BHL: 380' FNL & 330' FWL	WELL NAME: TVD 9,250'/ MD 13,870'/ No PH
FORMATION: 2nd BSS	DEPTH: 13,870
LEGAL: Sec 6-T19S-R32E	

<u>INTANGIBLE COSTS</u>	<u>BCP</u>	<u>ACP</u>	<u>TOTAL</u>
Title/Curative/Permit	201 10,000		10,000
Insurance	202 22,000	302 0	22,000
Damages/Right of Way	203 15,000	303 0	15,000
Survey/Stake Location	204 3,000	304 0	3,000
Location/Pits/Road Expense	205 80,000	305 25,000	105,000
Drilling / Completion Overhead	206 5,000	306 1,000	6,000
Turnkey Contract	207 0	307 0	0
Footage Contract	208 0	308 0	0
Daywork Contract (0 days /spud-ris @ \$0)	209 425,000	309 0	425,000
Directional Drilling Services (0 dir days @ \$0)	210 175,000	310 0	175,000
Fuel & Power	211 130,000	311 0	130,000
Water	212 125,000	312 140,000	265,000
Bits	213 77,500	313 4,500	82,000
Mud & Chemicals	214 50,000	314 0	50,000
Drill Stem Test	215 0	315 0	0
Coring & Analysis	216 0		0
Cement Surface	217 30,000		30,000
Cement Intermediate	218 100,000		100,000
Cement 2nd Intermediate 7"	218 0	319 125,000	125,000
Cement Squeeze & Other (Kickoff Plug)	220 0	320 0	0
Float Equipment & Centralizers	221 50,000	321 15,000	65,000
Casing Crews & Equipment	222 15,000	322 30,000	45,000
Fishing Tools & Service	223 0	323 0	0
Geologic/Engineering	224 10,000	324 1,000	11,000
Contract Labor	225 10,000	325 70,000	80,000
Company Supervision	226 2,000	326 2,000	4,000
Contract Supervision	227 37,800	327 35,000	72,800
Testing Casing/Tubing	228 7,000	328 0	7,000
Mud Logging Unit (logging /24 days)	229 24,000	329 0	24,000
Logging	230 25,000	330 0	25,000
Perforating/Wireline Services	231 10,000	331 100,000	110,000
Stimulation/Treating		332 1,700,000	1,700,000
Completion Unit		333 75,000	75,000
Swabbing Unit		334 0	0
Rentals-Surface	235 75,000	335 200,000	275,000
Rentals-Subsurface	236 100,000	336 40,000	140,000
Trucking/Forklift/Rig Mobilization	237 90,000	337 25,000	115,000
Welding Services	238 5,000	338 7,500	12,500
Water Disposal	239 0	339 227,500	227,500
Plug to Abandon	240 0	340 0	0
Seismic Analysis	241 0	341 0	0
Closed Loop & Environmental	244 175,000	344 10,000	185,000
Miscellaneous	242 5,000	342 0	5,000
Contingency	243 94,415	343 150,000	244,415
TOTAL INTANGIBLES	1,982,715	2,983,500	4,966,215
TANGIBLE COSTS			
Surface Casing (655' 13 3/8" 54.5# J55 STC)	401 36,000		36,000
Intermediate Casing(4050' 9 5/8" 36#/40# J55 BUTT)	402 125,000	503 0	125,000
Production Casing (13,450' 5 1/2" 17# N80/P110)		503 240,000	240,000
Tubing		504 60,000	60,000
Wellhead Equipment	405 20,000	505 25,000	45,000
Pumping Unit		506 97,000	97,000
Prime Mover		507 20,000	20,000
Rods		508 50,000	50,000
Pumps		509 4,500	4,500
Tanks		510 46,000	46,000
Flowlines		511 3,000	3,000
Heater Treater/Separator		512 65,000	65,000
Electrical System		513 0	0
Packers/Anchors/Hangers	414 0	514 1,200	1,200
Couplings/Fittings/Valves	415 0	515 115,000	115,000
Gas Compressors/Meters		516 8,100	8,100
Dehydrator		517 0	0
Injection Plant/CO2 Equipment		518 0	0
Miscellaneous	419 0	519 0	0
Contingency	420 19,000	520 74,200	93,200
TOTAL TANGIBLES	200,000	809,000	1,009,000
TOTAL WELL COSTS	2,182,715	3,792,500	5,975,215

COG Operating LLC

Date Prepared: 5/16/12

We approve:
_____% Working Interest

COG Operating LLC

Seth Wild - Drlg

Company:
By: _____

Printed Name:
Title:
Date: _____

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