

Nearburg Exploration Company, L.L.C.

Oil and Gas Exploration
3300 North "A" Street
Building 2, Suite 120
Midland, TX 79705-5421
432-686-8235
FAX 432-686-7806

May 16, 2012

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED

See Attached Addressee List

Re: Lynch 23 Prospect
Lea County, New Mexico
Operating Agreement and Well Proposal
Laguna 23 Fed Com #1H
W/2 Section 23, T-20-S, R-34-E, N.M.P.M.

Ladies and Gentlemen:

Reference is made to our previous proposal to drill the Laguna 23 Fed Com # 2H well to test the 3rd Bone Spring Reservoir, with its drilling unit encompassing the W/2W/2 of Section 23, T-20-S, R-34-E, N.M.P.M., Lea County, New Mexico, as well as our subsequent proposal of an Operating Agreement covering the W/2 of Section 23, limited to the Bone Spring formation. Enclosed you will find the Operating Agreement in its final form, with slight modifications as agreed to through discussions with various working interest owners. Should you find the Operating Agreement acceptable please return one executed original signature page, along with an executed and notarized original of the Notice of Joint Operating Agreement, Lien, Security Interests and Financing Statement.

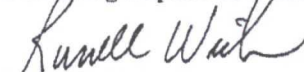
Please note that the initial well described in the Operating Agreement is the Laguna 23 Fed Com # 1H well to test the 3rd Bone Spring Reservoir, with its drilling unit encompassing the E/2W/2 of Section 23, rather than the previously proposed Laguna 23 Fed Com # 2H. Ongoing discussions between Nearburg and other interest owners within the W/2 of said Section 23 have resulted in the desire to drill this location initially, with the previously proposed Laguna 23 Fed Com #2H being the 2nd well should the initial well yield favorable results. **Note that the lands and depths covered by the Operating Agreement are the same as previously proposed, and that this proposal to drill the Laguna 23 Fed Com # 1H only constitutes a change in which spacing unit to drill first.**

Accordingly, Nearburg hereby proposes the drilling of the Laguna 23 Fed Com No 1H Well to test the 3rd Bone Spring formation at a surface location of approximately 330' FSL and 1980' FWL of said Section 23 and a bottom hole location of approximately 330' FNL and 1980' FWL of said Section 23, with the horizontal portion of the well drilled due North at a TVD of $\pm 11,050'$ to the captioned terminus (EOL), with a TMD of $\pm 15,424'$. I have attached for your review an AFE for the drilling of this well. If you are agreeable to drill the Laguna 23 Fed Com No 1H as the initial well please execute and return an original of such AFE to my attention.

If you have any questions and/or would like to discuss further, please feel free to contact me at (432) 818-2914.

Sincerely,

Nearburg Exploration Company, L.L.C.



Russell Wickman
Senior Landman

Attachments

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Exhibit No. 4
Submitted by:
NEARBURG EXPLORATION COMPANY, LLC
Hearing Date: January 24, 2013

AUTHORITY FOR EXPENDITURE ("AFE")

FINAL - LF

LEASE: Laguna 23 Fed Com

WELL NUMBER: 1H

TMD: 15,424' TVD 11,050'

LOCATION: SHL: 330' FSL & 1980' FWL Sec. 23, T20S, R34E, Lea County, New Mexico

EOL: 330' FNL & 1980' FWL Sec. 23, T20S, R34E, Lea County, New Mexico

FIELD:

EXPLORATORY, DEVELOPMENT, WORKOVER: Exploratory

DESCRIPTION OF WORK: Drill and complete 3rd Bone Springs Horizontal

DATE PREPARED: 2-10-2012

EST. START DATE: 2012

EST. COMPLETION DATE: 2012

ACCOUNTING WELL NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 0 Ft @ 0.00 \$/Ft	1514 205	0	NA	0	0
Drilling Daywork 42 4 19,500 \$/day	1514 206	876,330	1515 105	83,460	959,790
Drilling Turnkey	1514 210	0	1515 110	0	0
Rig Mobilization and Demobilization	1514 215	96,300	1515 115	0	96,300
Road & Location Expense	1514 220	83,460	1515 123	24,503	107,963
Closed Loop System & Disposal Cost	1514 224	317,790	NA	0	317,790
Damages	1514 225	15,000	1515 126	0	15,000
Directional Drilling - Tools and Service	1514 230	276,595	1515 130	0	276,595
Drilling Fluids	1514 235	132,145	1515 132	0	132,145
Fuel, Power, and Water	1514 240	219,350	1515 140	14,980	234,330
Supplies - Bits	1514 245	121,445	1515 145	8,025	129,470
Supplies - Casing Equipment	1514 250	7,918	1515 150	23,005	30,923
Supplies - Liner Equipment	1514 255	0	1515 155	0	0
Supplies - Miscellaneous	1514 260	3,745	1515 160	11,235	14,980
Cement and Cmt. Services - Surface Csg	1514 265	19,260	NA	0	19,260
Cement and Cmt. Services - Int. Csg	1514 270	80,250	NA	0	80,250
Cement and Cmt. Services - Prod. Csg	NA	0	1515 172	99,510	99,510
Cement and Cmt. Services - Other	1514 275	0	1515 175	0	0
Rental - Drilling Tools and Equipment	1514 280	103,790	1515 180	0	103,790
Rental - Misc.	1514 285	229,141	1515 185	207,045	436,186
Testing - Drill Stem / Production	1514 295	0	1515 195	51,360	51,360
Open Hole Logging	1514 200	0	NA	0	0
Mudlogging Services	1514 210	53,928	NA	0	53,928
Special Services	1514 290	0	1515 190	38,520	38,520
Plug and Abandon	1514 215	85,000	1515 215	(85,000)	0
Pulling and/or Swabbing Unit	NA	0	1515 217	95,872	95,872
Reverse Equipment	NA	0	1515 219	34,240	34,240
Wireline Services	1514 205	3,745	1515 205	100,580	104,325
Stimulation	NA	0	1515 221	1,858,590	1,858,590
Pump / Vacuum Truck Services	1514 220	18,725	1515 220	111,280	130,005
Transportation	1514 225	29,425	1515 225	25,680	55,105
Tubular Goods - Inspection & Testing	1514 230	50,825	1515 230	12,840	63,665
Unclassified	1514 245	0	1515 245	0	0
Telephone and Radio Expense	1514 240	2,472	1515 240	856	3,328
Engineer / Geologist / Landman	1514 250	19,260	1515 250	18,000	37,260
Company Labor - Field Supervision	1514 255	85,065	1515 255	37,500	122,565
Contract Labor / Roustabout	1514 265	77,040	1515 265	96,300	173,340
Legal and Professional Service	1514 270	0	1515 270	0	0
Insurance	1514 275	0	1515 275	0	0
Overhead	1514 280	14,000	1515 280	0	14,000
SUBTOTAL		3,022,003		2,868,381	5,890,384
Contingencies (5%)		151,100		143,419	294,519
ESTIMATED TOTAL INTANGIBLES		3,173,103		3,011,800	6,184,903

AUTHORITY FOR EXPENDITURE ("AFE")

LEASE: Laguna 23 Fed Com WELL NUMBER: 1H TMD: 15,424' TVD 11,050'
LOCATION: SHL: 330' FSL & 1980' FWL Sec. 23, T20S, R34E, Lea County, New Mexico
EOL: 330' FNL & 1980' FWL Sec. 23, T20S, R34E, Lea County, New Mexico

FIELD: EXPLORATORY, DEVELOPMENT, WORKOVER: Exploratory
DESCRIPTION OF WORK: Drill and complete 3rd Bone Springs Horizontal

DATE PREPARED: 2-10-2012 EST. START DATE: 2012 EST. COMPLETION DATE: 2012
ACCOUNTING WELL NUMBER:

TANGIBLE COSTS:			CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	40 Ft @	400.00 \$/Ft	1520.305	16,000	NA	0	16,000
Surface Csg	1,700 Ft @	52.00 \$/Ft	1520.310	88,400	NA	0	88,400
Intermediate Csg	5,500 Ft @	44.00 \$/Ft	1520.315	242,000	NA	0	242,000
Protection Csg	0 Ft @	0.00 \$/Ft	1520.320	0	NA	0	0
Production Csg	15,424 Ft @	23.00 \$/Ft	NA	0	1522.325	354,752	354,752
Protection Liner	0 Ft @	0.00 \$/Ft	1520.330	0	NA	0	0
Production Liner	0 Ft @	0.00 \$/Ft	NA	0	1522.335	0	0
Tubing	11,100 Ft @	6.80 \$/Ft	NA	0	1522.340	75,480	75,480
Rods	11,100 Ft @	4.00 \$/Ft	NA	0	1522.345	44,400	44,400
Artificial Lift Equipment			NA	0	1522.350	123,050	123,050
Tank Battery			NA	0	1522.355	110,745	110,745
Separators/Heater Treater/Gas Units/FWKO			NA	0	1522.360	26,750	26,750
Well Head Equipment & Christmas Tree			1520.365	28,890	1522.365	42,800	71,690
Subsurface Well Equipment			NA	0	1522.370	19,795	19,795
Flow Lines & Pipe Lines			NA	0	1522.375	10,700	10,700
Saltwater Disposal Pump			NA	0	1522.380	9,095	9,095
Gas Meter			NA	0	1522.385	11,235	11,235
Lact Unit			NA	0	1522.387	0	0
Vapor Recovery Unit			NA	0	1522.389	0	0
Other Well Equipment			NA	0	1522.390	9,095	9,095
ROW and Damages			NA	0	1522.393	10,700	10,700
Surface Equipment Installation Costs			NA	0	1522.395	46,010	46,010
Elect. Installation			NA	0	1522.397	42,800	42,800
ESTIMATED TOTAL TANGIBLES				375,290		937,407	1,312,697
ESTIMATED TOTAL WELL COSTS				3,548,393		3,949,207	7,497,600

☐ By checking this box, Non-Operator hereby waives and rejects coverage under Operator's Extra Expense Indemnity Insurance and relies on the coverage provided by its own insurance, and shall within 15 days of approval of this AFE by Non-Operator, provide Operator with a certificate of insurance reflecting current coverage comparable to those provided by Operator. Failure to check this box shall be deemed an election to obtain coverage under Operator's Extra Expense Indemnity Insurance.

THIS AFE IS ONLY AN ESTIMATE. BY SIGNING YOU AGREE TO PAY YOUR SHARE OF THE ACTUAL COSTS INCURRED.

Nearburg Producing Company

By: _____ Date: _____

Matt Lee, Operations Manager

Geology: _____

Engineering: ZS

By: _____ Date: 5/18/2012

Terry Gant, Midland Manager

Land: RW

WI APPROVAL: COMPANY _____
BY _____
TITLE _____
DATE _____