

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(432) 682-3715
FAX (432) 685-4170

May 19, 2014

Via Overnight Mail
(817) 713-3830

Ard Oil, Ltd.
222 W. 4th Street, PH #5
Fort Worth, Texas 76102
Attn: Mrs. Mary T. Ard

Re: Proposed Horizontal Bone Spring Test
Tamano "11" MD Fed COM #1-H
W/2 Section 11, T-18-S, R-31-E
Eddy County, New Mexico
Tamano Prospect

Ladies and Gentlemen:

Mewbourne Oil Company ("Mewbourne") hereby proposes drilling a horizontal 2nd Bone Spring sand test in Section 11, T-18-S, R-31-E, Eddy County, New Mexico. The well will be called the Tamano "11" MD Fed COM #1-H well and will have a surface location 188' FSL & 903' FWL and a bottom hole location 330' FNL & 850' FWL of said Section 11. We anticipate drilling to a vertical depth where horizontal drilling operations will commence intended to land the well horizontal in the 2nd Bone Spring formation at a vertical depth of approximately 8,429'. We would then continue drilling horizontally to the north in the 2nd Bone Spring Sand formation to the bottom hole location at a total measured depth of 13,100'.

Because there is no Operating Agreement in place that would govern operations for this project, Mewbourne proposes forming a 320 acre working interest unit covering the W/2 of said Section 11 limited to those depths from the base of the 2nd Bone Spring carbonate down to the base of the Wolfcamp formation. Based upon the Title Opinion previously rendered for this project, Ard Oil, Ltd. ("Ard") owns an undivided 3.54197% contractual interest in the SW/4 of said Section 11. Accordingly, Ard would have a 1.77083% working interest in the proposed unit and well.

Enclosed are duplicate original AFE well cost estimates for this well, a 1989 Model Form JOA covering the W/2 of said Section 11 limited to those depths from the base of the 2nd Bone Spring carbonate down to the base of the Wolfcamp formation along with an extra set of signature pages to the JOA. To make your election to join in the proposed well and unit, please execute and return one of the enclosed AFEs along with the extra set of signature pages to the JOA. Please note that Mewbourne's AFEs provide all participants the opportunity to opt out of the "Extra Expense Well Control Insurance" that Mewbourne purchases for each well it drills. To opt out of this insurance, please be sure to sign the AFE a second time at the bottom of each AFE. If you do opt out, you must provide evidence that you have adequate well control insurance.

Oil Conservation Division
Case No. 2
Exhibit No.

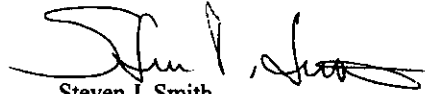
As an alternative to participation, Mewbourne hereby offers to purchase a 2 year Term Assignment of Ard's 5.66667 net acre interest in the SW/4 of said Section 11 limited to the depths described above based upon:

1. \$450.00 per net acre bonus;
2. Delivery of a 75% NRI to Mewbourne; and
3. Use of a mutually acceptable Term Assignment form.

Feel free to contact me at (432) 682-3715 or via email at ssmith@mewbourne.com if you have any questions or would like to discuss this proposal in greater detail.

Sincerely,

MEWBOURNE OIL COMPANY



Steven J. Smith
Senior Landman

Enclosures

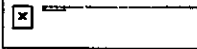
Steve Smith

From: trackingupdates@fedex.com
Sent: Tuesday, May 20, 2014 12:09 PM
To: Steve Smith
Subject: FedEx Shipment 770026201030 Delivered

[fedex.com](#) | [Ship](#) | [Track](#) | [Manage](#) | [Learn](#) | [Office/Print Services](#)

Your package has been delivered

Tracking # 770026201030

Ship (P/U) date: Monday, 5/19/14	Delivery date: Tuesday, 5/20/14 11:54 AM
Steve Smith	
Mewbourne Oil Company Midland, TX 79701 US	 Mary T. Ard Ard Oil, Ltd. 222 W 4TH ST PH 5 FORT WORTH, TX 76102 US
	Delivered

Shipment Facts

Our records indicate that the following package has been delivered.

Tracking number:	770026201030
Status:	Delivered: 05/20/2014 11:54 AM Signed for By: J.BRABSON
Reference:	Spyglass 17 #2
Signed for by:	J.BRABSON
Delivery location:	FORT WORTH, TX
Delivered to:	Residence
Service type:	FedEx Standard Overnight
Packaging type:	FedEx Envelope
Number of pieces:	1
Weight:	1.00 lb.
Special handling/Services:	Deliver Weekday Residential Delivery

MEWBOURNE OIL COMPANY
AUTHORIZATION FOR EXPENDITURE

Well Name: <u>Tamano 11 MD Fed Com 1H</u>		Prospect: <u>2nd Bone Springs</u>	
Location: <u>SL: 188' FSL & 903' FWL BHL: 330' FNL & 850' FWL</u>		County: <u>Eddy</u>	ST: <u>NM</u>
Sec. <u>11</u>	BLK: <u></u>	Survey: <u></u>	TWP: <u>18S</u> RNG: <u>31E</u> Prop. TVD: <u>8429'</u> TMD: <u>13100'</u>

INTANGIBLE COSTS 0180	CODE	TCP	CODE	CC
Permits and Surveys	0180-0100	\$10,000	0180-0200	
Location: Roads, Pits & Site Preparation	0180-0105	\$90,000	0180-0205	\$5,000
Location: Site Restoration, Excavation & Other	0180-0106	\$160,000	0180-0206	
Day Work, Footage, Turnkey Drilling 21 days drlg/3 day comp @ \$17,000/day + GRT	0180-0110	\$381,300	0180-0210	\$54,500
Fuel 900 gal/day @ \$3.5/gal	0180-0114	\$75,600		
Mud	0180-0120	\$45,000		
Chemicals and Additives	0180-0121		0180-0221	
Cementing	0180-0125	\$90,000	0180-0225	
Logging: Wireline & Coring Services Gyro & Cased hole logs	0180-0130	\$14,000	0180-0230	
Casing, Tubing & Snubbing Services	0180-0134	\$35,000	0180-0234	\$18,000
Mud Logging	0180-0137	\$19,000		
Stimulation			0180-0241	\$800,000
Stimulation Rentals & Other			0180-0242	\$200,000
Water & Other	0180-0145	\$45,000		
Bits	0180-0148	\$80,000	0180-0248	
Inspection & Repair Services	0180-0150	\$28,000	0180-0250	\$1,500
Misc. Air & Pumping Services	0180-0154		0180-0254	\$2,500
Testing	0180-0158	\$28,500	0180-0258	\$20,000
Completion / Workover Rig			0180-0260	\$18,600
Rig Mobilization	0180-0184	\$160,000		
Transportation	0180-0185	\$15,000	0180-0265	\$1,000
Welding and Construction	0180-0188	\$5,500	0180-0268	\$7,500
Engineering & Contract Supervision	0180-0170	\$33,000	0180-0270	\$4,500
Directional Services	0180-0175	\$140,000		
Equipment Rental	0180-0180	\$160,000	0180-0280	\$8,000
Well / Lease Legal	0180-0184	\$8,000	0180-0284	\$1,000
Well / Lease Insurance	0180-0185	\$4,300	0180-0285	\$1,000
Intangible Supplies	0180-0188	\$18,000	0180-0288	\$1,000
Damages	0180-0190	\$5,000	0180-0290	
Pipeline, Road, Electrical ROW & Easements	0180-0192		0180-0292	
Pipeline Interconnect			0180-0293	
Company Supervision	0180-0195	\$50,000	0180-0295	\$6,000
Overhead Fixed Rate	0180-0198	\$8,000	0180-0298	\$7,000
Well Abandonment	0180-0198		0180-0298	
Contingencies 10% (TCP) 5% (CC)	0180-0199	\$170,800	0180-0299	\$57,900
TOTAL		\$1,879,000		\$1,215,000

TANGIBLE COSTS 0181	CODE	TCP	CODE	CC
Casing (19.1" - 30")	0181-0793			
Casing (10.1" - 19.0") 875' 13 3/8" 48# K55 STC @ \$32.00/ft +GRT	0181-0794	\$29,900		
Casing (8.1" - 10.0") 2185' 9 5/8" 36# K55 LTC @ \$24/ft +GRT	0181-0795	\$56,000		
Casing (6.1" - 8.0") 8850' 7" 26# P110 BTC/LTC @ \$26/ft +GRT	0181-0798	\$245,800		
Casing (4.1" - 6.0") 4300' 4 1/2" 13.5# P110 LTC @ \$14/ft +GRT			0181-0797	\$64,300
Tubing (2" - 4") 8300' 2 7/8" 6.5# L80 EUE 8rd @ 6.25/ft +GRT			0181-0798	\$55,400
Drilling Head	0181-0860	\$15,500		
Tubing Head & Upper Section			0181-0870	\$15,000
Downhole Directional Equipment 20 stage pkrs/prts + GRT			0181-0871	\$250,000
Sucker Rods			0181-0875	\$38,000
Packer Pump & Subsurface Equipment			0181-0880	\$15,000
Artificial Lift Systems ESP			0181-0884	\$40,000
Pumping Unit 912 +GRT			0181-0885	\$135,000
Surface Pumps & Prime Movers 75 hp motor			0181-0886	\$6,000
Tanks - Steel 1-500 bbl			0181-0890	\$15,000
Tanks - Others			0181-0891	
Separation & Gas Treating Equipment 1 - 36x10x500# Gas Separators			0181-0895	\$15,000
Heater Treaters, Line Heaters 6x20x75# heater treater			0181-0897	\$20,000
Metering Equipment			0181-0898	\$8,000
Line Pipe - Gas Gathering and Transportation			0181-0900	\$10,000
Misc. Fittings, Valves, Line Pipe and Accessories			0181-0906	\$6,000
Cathodic Protection			0181-0908	\$5,000
Electrical Installations			0181-0909	\$20,000
Production Equipment Installation			0181-0910	\$10,000
Pipeline Construction			0181-0920	
TOTAL		\$347,200		\$727,700
SUBTOTAL		\$2,226,200		\$1,942,700
TOTAL WELL COST		\$4,168,900		

Prepared by: K. Freidenbloom Date: 5/8/2014
Co. Approval: *m. white* Date: 5/9/2014

Joint Owner Interest: 1.77083000% Amount: \$73,824.13
Joint Owner Name: ARD Oil, Ltd.

Joint Owner Approval: _____

Operator has secured Operator's Extra Expense Insurance covering costs of well control, clean up and redrilling as estimated in Line Item 0180-0185. Non-Operator may elect NOT to be covered by this Operator's Extra Expense Insurance only by signing below. The undersigned elects **NOT to be covered** by Operator's Extra Expense Insurance for their well.

Joint Owner Name: ARD Oil, Ltd.

Signature: _____

Form Rev: 4/2012