

# Martin County – 5k' LL Prospect

## Jason's Thoughts

### Summary:

An individual section has been boxed out, requiring 5k' LL wells. At least one mineral owner (Eastern-half) is not concerned about the lease bonus but rather the royalty through the development of the acreage.

**Proposal:** Develop the Wolfcamp A & Lower Spraberry with 1-mile lateral wells retain other benches for longer lateral length wells

- Idea: Lease, bonus-free, and develop a 240-acre proration unit.

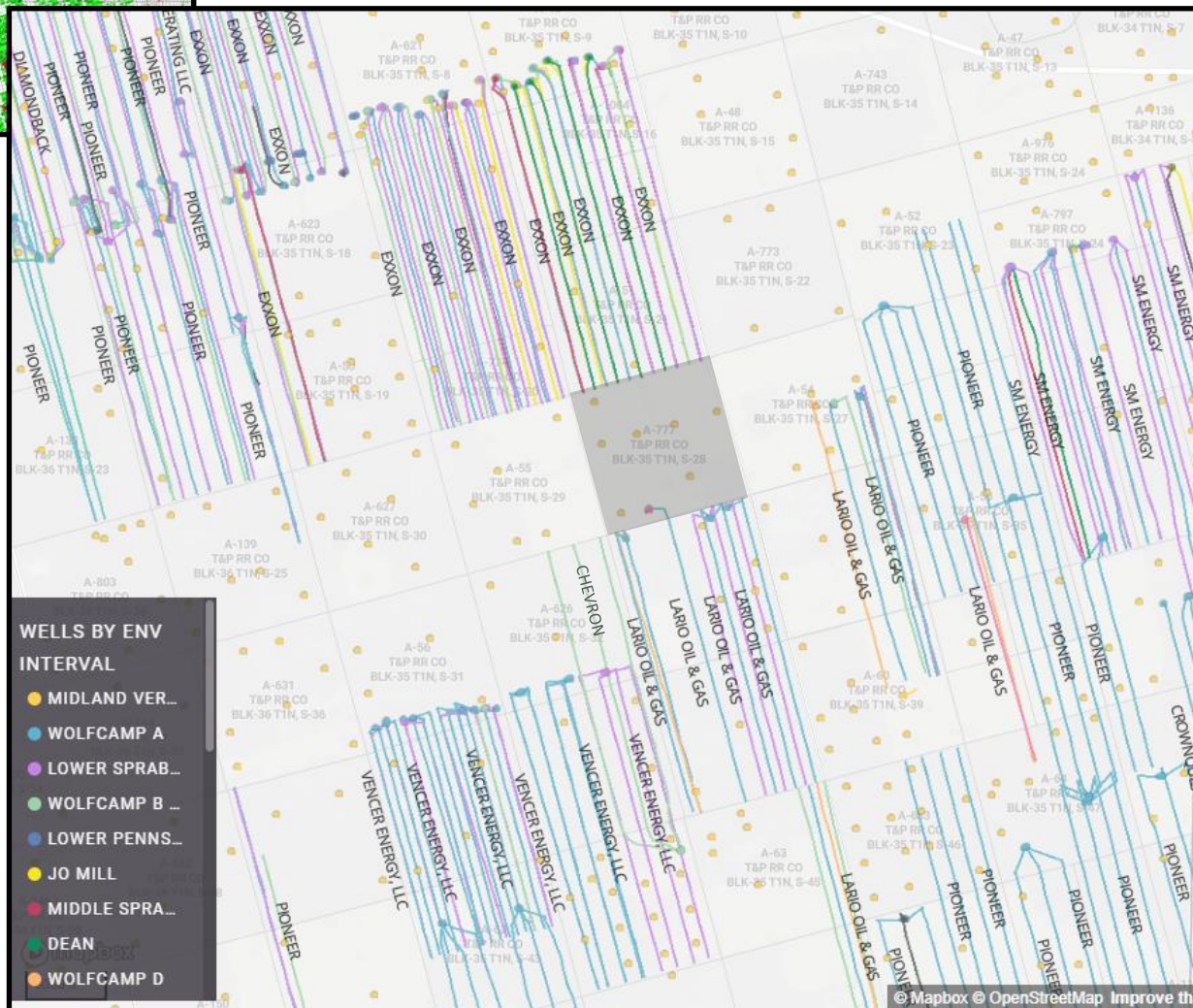
**Acreage:** Operator to the South (Lease: Doolittle) has primarily targeted the Wolfcamp A & Lower Spraberry – isolating section 28. Fortunately, those two zones are best for 1-mile laterals in this area.

The Wolfcamp B looks pretty good (see Chevron to the SE of Section 28) and could be drilled on Section 28 with 3-mile laterals to the South (as with Middle Spraberry & Jo Mill).

- Wolfcamp A & Lower Spraberry:** Promising & Profitable with 1-mile lateral wells
- Wolfcamp B:** Lario has yet to drill and Wolfcamp B wells to the South
  - Work with Lario (operator to the South) to incentivize 3-mile laterals in the Wolfcamp B
- Wolfcamp D & Woodford:**
  - Lario continues to explore these zones to the South. If successful, The acreage to the North could be combined for 15k' LL wells – may be less likely that Exxon drills these
- Jo Mill:**
  - Exxon drilled a few Jo Mill wells to the North. They don't look too good but would be improved from a profitability standpoint with 3-mile laterals to the South (similar to WCB).
- Middle Spraberry**
  - Exxon drilled a couple to the North – initial well tests were strong, all allocated production thereafter, but shows a steep decline. Another 3-mile lateral candidate to the South

**Note:** Next slide has 6 month Cum and EUR avg for each zone in this region.

### Active Wells Adjacent to Section 28

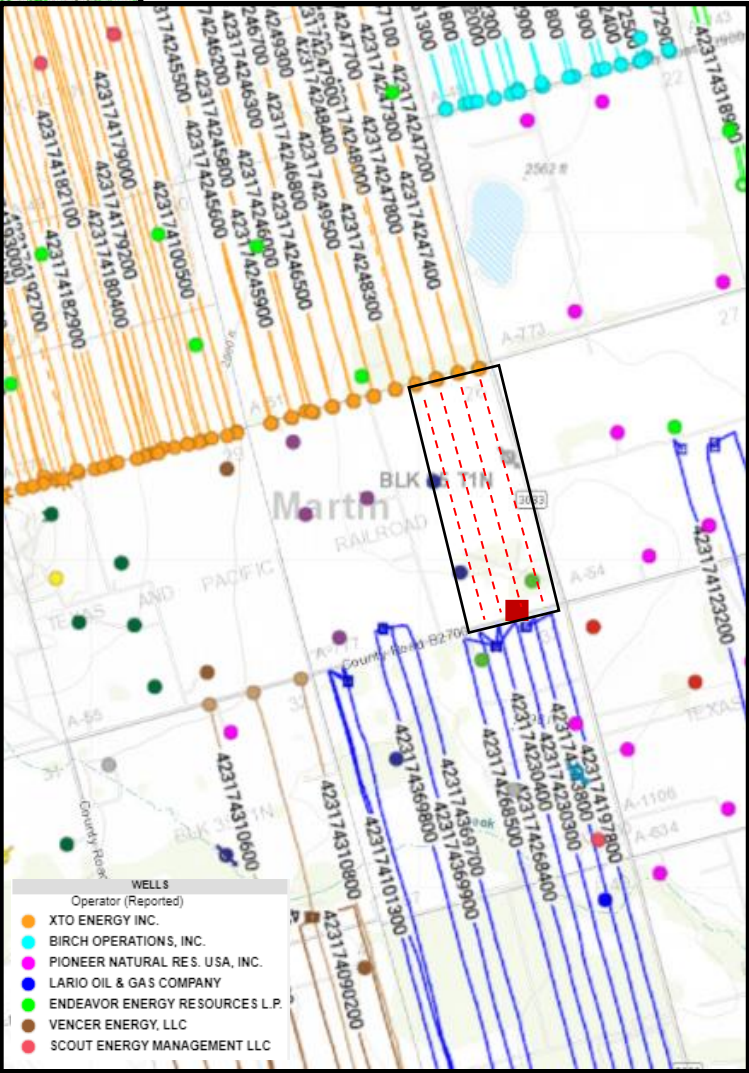


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# Jason’s Proposal



Section 28



### Acreage:

- Shallow depths leased to Lario (severed at ~8,500’)
- Lario operates wells to the South, Pioneer has a deeper leasehold interest in that unit

### Infrastructure:

- Ruger Properties SWD in Section 28 - \$0.60/bbl for disposal with spare capacity
  - Clearwater SWD to the South- may be able to tie into that one as well
- County Road & Pad to the South – gathering lines in place

### Operator:

- Cutbow, Birch, & Vencer all operate in the area
  - Cutbow has spare capacity to drill and is willing to consider a drilling partnership (main concern is finding casing)

### Proposal/Deal Structure:

- Lario exchanges shallow leasehold interest in Section 28 for no-cost leasehold in deeper intervals (below 8,500’)
  - Three 10k’ WCB wells have a higher return than the four 5k’ LL wells (WCA & LSBY)
- Agree with Cutbow to act as operating partner (5% promote in wells ~ \$1MM?)
- Offer non-op WI to small PE shops to reduce WI exposure to a desirable amount

### 3 WCB (Lario)

Scenario	\$75/bbl 10k’ WCB
Well Count	3
Total CAPEX	\$21
Payout	9 Mo
PV0 (10 yrs)	\$33
PV10 (10 yrs)	\$22
IRR	83%
ROIC	3.02
BE Oil Price	\$33/bbl

### 4 Well Eco w/5% Promote to Cutbow

Scenario	\$75/bbl	\$40/bbl
	4 Well Dev	
Well Count	4	4
Total CAPEX	\$23	\$23
Payout	17 Mo	116 Mo
PV0 (10 yrs)	\$26	\$0
PV10 (10 yrs)	\$15	-\$5
IRR	47%	4%
ROIC	2.61	1.16
BE Oil Price	\$36/bbl	
4% RI (10 yrs)	\$3.0	\$1.6

→  
~ CFR Interest

### Eco to Cutbow at 15% WI (5% promote)

Scenario	\$75/bbl	\$40/bbl
	4 Well Dev	
Well Count	4	4
Total CAPEX	\$1.1	\$1.1
Payout	3 Mo	9 Mo
PV0 (10 yrs)	\$6	\$2
PV10 (10 yrs)	\$4	\$2
IRR	405%	101%
ROIC	7.82	3.48
BE Oil Price	\$19/bbl	