



HARVEY E. YATES COMPANY

A MEMBER COMPANY OF HEYCO ENERGY GROUP

September 18, 2014

SEP 24 2014
BY:

CERTIFIED MAIL

Airstrip Prospect Working Interest Owners
(See attached mailing list)

Re: **Airstrip 31 State Com #2H**
Sec.31, T-18S R-35E, N.M.P.M.
SHL: 150' FSL & 330' FWL
Sec. 31, T-18S, R-35E, N.M.P.M.
BHL: 330' FNL & 710' FWL
Lea County, New Mexico

Ladies and Gentlemen:

Harvey E. Yates Company ("HEYCO") hereby proposes to drill the above captioned well. The Airstrip 31 State Com #2H well has been staked and permitted at an approximate surface hole location of 150' FSL and 330' FWL in Section 31 of T-18S, R-35E, with an approximate bottom hole location of 330' FNL and 710' FWL in Section 31 and will be drilled horizontally to test the Bone Spring 3rd Sand at an approximate vertical depth of 10,510 feet. The project area for this well will be 154.28 acres (W/2W/2 Section 31).

A Joint Operating Agreement is enclosed for your review and execution. If you wish to participate in the captioned well please return a signed AFE with the executed pages to the JOA to my attention. Also attached to this proposal is a spreadsheet that outlines the legal description of the contract area for the prospect, and the breakdown of the working interest for each owner in the prospect area (634.28 acres). In the event you elect not to participate in this drilling proposal, HEYCO will consider a farm-in of your working interest on terms acceptable to HEYCO.

Should you have any questions regarding this proposal please contact me for any land concerns, Trent Green for any technical questions, and Gordon Yahney for geology concerns.

Very truly yours,

Colby Booth
Landman

CSB
Enclosures
AirstripFedCom2HProposalLtr.doc/Land:SE Airstrip

NMOCD Case No. 15363
Hearing: SEP 29, 2015

Jalapeno EX 2

Southeast Airstrip
Mailing List

Harvey E. Yates Company
P.O. Box 1933
Roswell, NM 88202-1933

Explorers Petroleum Corporation
P.O. Box 1933
Roswell, NM 88202-1933

Jalapeno Corporation
P.O. Box 1608
Albuquerque, NM 87103-1608

Mike Kadane Trust
P.O. Box 5012
Wichita Falls, TX 76307

Prime Energy Corporation
9821 Katy Freeway, Suite 1050
Houston, TX 77024-6009

Roden Participants, Ltd.
2603 Augusta, Suite 740
Houston, TX 77057

Roden Associates, Ltd.
2603 Augusta, Suite 740
Houston, TX 77057

Roden Exploration Company Ltd.
2603 Augusta, Suite 740
Houston, TX 77057

S & C Construction Company
P.O. Box 1509
Whitefish, MT 59937

Sherrfive, LP
812 Eagle Pointe
Montgomery, TX 77316

Spiral, Inc.
P.O. Box 1933
Roswell, NM 88202-1933

Yates Energy Corporation
P.O. Box 2323
Roswell, NM 88202-2323

Airstrip 31 State Com #2H

Sec.31, T-18S R-35E, N.M.P.M.

SHL: 150' FSL & 330' FWL

Sec. 31, T-18S, R-35E, N.M.P.M.

BHL: 330' FNL & 710' FWL

Lea County, New Mexico

Drill and Completed Cost \$7,317,030.00

Working Interest Owner	Working Interest	Estimated Costs
Explorers Petroleum Corp.	0.02489898	\$182,186.58
Jalapeno Corporation	0.05097063	\$372,953.63
Mike Kadane Trust	0.01250118	\$91,471.53
Prime Energy Corporation	0.03125296	\$228,678.82
Roden Participants, Ltd.	0.03097409	\$226,638.38
Roden Associates, Ltd.	0.00619482	\$45,327.69
Roden Exploration Company, Ltd.	0.03097409	\$226,638.38
S & C Construction Company	0.08982488	\$657,251.35
SHERRFIVE L.P.	0.08982488	\$657,251.35
Spiral, Inc.	0.02489898	\$182,186.58
Yates Energy Corporation	0.08394506	\$614,228.54
Harvey E. Yates Company	0.52373944	\$3,832,217.17
Total	1.00000000	\$7,317,030.01



Authority For Expenditure Harvey E. Yates Company

Region	Well Name	Field Name	Property Number	AFE No.
Permian	Airstrip 31 State #2H	Airstrip; Bone Spring		

Location	County, State	Well Type			
SHL: Sec. 31, T18S R35E, 150' FSL & 330' FWL BHL: Sec 31, T 18S, R35E, 330' FNL & 710' FWL	Lea, New Mexico	Oil	<input checked="" type="checkbox"/>	EXPL	<input checked="" type="checkbox"/>
		Gas	<input type="checkbox"/>	PROD	<input type="checkbox"/>

Estimate Type	Est. Start Date	Est. Comp Date	Formation	Total Measured Depth
Original Estimate	<input checked="" type="checkbox"/>			15,185'
Revised Estimate	<input type="checkbox"/>	December 15, 2014	February 28, 2015	3rd Bone Springs
Supplemental Estimate	<input type="checkbox"/>			Total Vertical Depth

Project Description

Intangible Costs			
Drilling	\$ 1,972,460	Formation Testing	\$ 49,500
Completion	\$ 4,284,775		

Tangible Costs			
Lease and Well Equipment	\$ 256,520	Well Equipment	\$ 432,025
Lease and Battery Equipment	\$ 321,750		

Total Drilling	\$ 2,278,480	Total Completion	\$ 5,038,550
Total Intangible	\$ 6,306,735	Total Tangible	\$ 1,010,295

Total Well Cost	\$ 7,317,030	Total Dry Hole Cost	\$ 2,420,655
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Comments on Well Cost

1. All tubulars, well or lease equipment is priced by COPAS and CEPS guidelines using the Historic Price Multiplier.

Well Control Insurance

Unless otherwise indicated below, you, as a non-operating working interest owner, agree to be covered by operators well control insurance procedure by Operator so long as Operator conducts operation hereunder and to pay your prorata share of the premiums therefore. If you elect to purchase your own well control insurance, you must provide a certificate of such insurance acceptable to Operator, as to form and limits at the time this AFE is Returned, if available, but in no event later than commencement of frilling operation. You agree that failure to provide the certificate of insurance, as provided herein, will result in your being covered by insurance procured by Operator.

I elect to purchase my own well control insurance policy.

Well control insurance procedure by Operator, provides, among other terms, for \$20,000,000 (100% W.I.) of Combined Single Limit coverage for well control and related redrilling and clean-up / pollution expense covering drilling (through completion with a \$1,000,000 (100% W.I.) deductible.

Marketing Election

HEYCO sells its gas under arm's length contracts with third party purchasers. Such contracts may include fees. In addition, penalties may be incurred for insufficient volumes delivered over time. Should you choose to market your share of gas with HEYCO, you will be subject to all of the terms of such contracts. Upon written request to HEYCO, we will share with you the terms and conditions pursuant to which gas will be sold. Failure to make an election below shall be deemed an election to market your gas with HEYCO under the terms and conditions set forth above.

I elect to take my gas in kind.

I elect to market my gas with HEYCO pursuant to the terms and conditions of its contract.

AFE Comments

Harvey E. Yates Approval

Harvey E. Yates Company By: T.W. Green Date: Tuesday, July 15, 2014

Joint Interest Approval

Company	Approved By
Jalapeno Corp.	Harvey E. Yates, Jr.
Date	Signature
10/23/14	



Authority For Expenditure Harvey E. Yates Company

Date:	7/15/2014
Prepared By:	Jim Ward
Prospect Name:	Airstrip Bone Spring
County, State:	Lea, New Mexico
Projected Total Depth:	15,185'

Lease / Well Number:	Airstrip 31 State #2H
Location:	SHL; Sec 31, T18S R35E, 150' FSL & 330' FWL BHL; Sec 31, T 18S, R35E, 330' FNL & 710' FWL
Field:	Airstrip; Bone Spring
Primary Objectives:	3rrf Bone Springs

NOTES

Daywork Contract - Horiz. Well - Closed Loop Mud System
Sand Completion (Multiple stages Frac)
Assumes regulatory agent approves casing program.
Casing prices based on direct purchase for this well.

It is recognized that the amounts provided here are estimates only and approval of this authorization shall extend to actual costs incurred in conducting the operations specified, whether more or less than estimated.

Infant Drilling Costs BCP		COSTS
951-000 Abandonment & Cleanup		\$ 30,000
920-009 Abstracts & Title Opinions		\$ 15,000
920-009 Well Control Insurance	15,185' \$/Ft: 0.57	\$ 8,700
921-000 Legal, Permits & Fees		\$ 5,000
921-000 Staking Location & Surveys		\$ 11,500
921-001 Location, Road & ROW		\$ 80,000
921-003 IDC Daywork	Days: 23 \$/Day: 19500	\$ 448,500
921-003 Mobilization / Demobilization		\$ 100,000
921-003 Rig Fuel	Days: 23 \$/Day: 4500	\$ 103,500
921-002 IDC Footage	\$/Ft:	
922-001 Supervision	Days: 23 \$/Day: 1850	\$ 42,550
922-001 Drilling Overhead (Administrative Services)		\$ 5,600
922-004 Bits & Reamers		\$ 73,000
922-000 Rentals Surface		\$ 203,980
922-000 Rentals Sub-Surface		\$ 82,915
922-000 Drill Pipe / Motors	Days: 15 \$/Day: 2500	\$ 37,500
922-000 Directional Drilling Expense		\$ 150,000
921-008 Inspection - Drill String		\$ 10,000
921-008 Well Control & Testing		\$ 8,000
921-008 Miscellaneous IDC		\$ 25,000
921-006 Mud Logging	Days: 18 \$/Day: 1800	\$ 32,400
922-003 Contract Labor		\$ 25,500
922-002 Transportation		\$ 15,000
921-004 Surface Casing Crews		\$ 15,000
921-004 Surface Cement and Cement Services		\$ 47,000
921-004 Surface Float Equipment & Centralizers		\$ 3,500
921-007 Intermediate Casing Crews		\$ 20,000
921-007 Intermediate Cement and Cement Services		\$ 34,000
921-007 Intermediate Float Equipment & Centralizers		\$ 5,000
921-005 Mud & Additives		\$ 100,000
921-011 Corrosion Control & Chem.		\$ 7,000
921-010 Water		\$ 25,000
921-010 Water / Mud Disposal		\$ 25,000
Contingency (10%)		\$ 179,315
TOTAL		\$ 1,972,460

Infant Formation Testing BCP		COSTS
923-003 Logging & Wireline		\$ 45,000
923-003 Drill Stem - Formation Tests		\$ -
923-001 Coring & Analysis (Sidewall Cores)		\$ -
Contingency (10%)		\$ 4,500
TOTAL		\$ 49,500

Tangible Lease & Well Equipment BCP		COSTS
930-001 Surface Casing	13-3/8" \$/Ft: 41 Feet: 2000	\$ 82,000
930-002 Intermediate Csg	9-5/8" \$/Ft: 30 Feet: 4040	\$ 121,200
	" \$/Ft: Feet:	\$ -
	" \$/Ft: Feet:	\$ -
930-009 Wellhead		\$ 25,000
931-003 Cattle Guards		\$ 5,000
Contingency (10%)		\$ 23,320
TOTAL EQUIPMENT		\$ 256,520

TOTAL DRILLING	\$ 2,278,480
TOTAL INTANGIBLE	\$ 6,306,735

Infant Comp. Costs ACP		COSTS
951-000 Abandonment & Cleanup		\$ (30,000)
921-003 Daywork	Days: 5 \$/Day: 19500	\$ 97,500
921-003 Rig Fuel	Days: 5 \$/Day: 4500	\$ 22,500
924-008 Drilling Rig Supervision	Days: 5 \$/Day: 1850	\$ 9,250
924-004 Production Casing Crews		\$ 25,000
924-004 Production Casing Cement & Services		\$ 78,000
924-004 Prod. Float Equipment & Centralizers		\$ 12,000
924-001 Completion / Swab Unit	Days: 10 \$/Day: 4500	\$ 45,000
924-008 Compl. Rig Supervision	Days: 10 \$/Day: 750	\$ 7,500
924-008 Administrative Services		\$ 6,500
924-003 Mud & Chemicals		\$ 5,000
924-003 Water Hauling		\$ 100,000
924-005 Logging, Perforations & Wireline		\$ 140,000
924-006 Rentals Subsurface		\$ 100,000
924-006 Rentals Surface		\$ 235,000
924-008 Nitrogen Service & Coiled Tubing		\$ 180,000
924-006 Fishing		\$ -
924-007 Stimulation		\$ 2,500,000
924-007 Transportation		\$ 14,000
924-009 Contract Labor & Roustabout		\$ 15,000
925-001 Bits & Reamers		\$ 5,000
925-001 Couplings & Fittings		\$ 15,000
925-003 Location & Road Expense		\$ 10,000
925-003 Miscellaneous IDC		\$ 150,000
925-003 Pipe Inspection & Recondition		\$ 20,000
925-003 Pumping Services (Kill Truck)		\$ 120,000
925-003 Testing		\$ 11,500
925-003 Well Control Insurance	Days: 10 \$/Day: 350	\$ 3,500
Contingency (10%)		\$ 389,525
TOTAL		\$ 4,284,775

Tangible Well Equipment ACP		COSTS
930-003 Prod. Csg / Liners	5-1/2" \$/Ft: 15 Feet: 8000	\$ 120,000
	" \$/Ft: 20 Feet: 7500	\$ 150,000
930-004 Tubing	2-3/8" \$/Ft: 7 Feet: 10500	\$ 68,250
930-009 Wellhead		\$ 9,500
931-000 Downhole Lift Equipment		\$ -
931-000 Subsurface Equipment		\$ 45,000
Contingency (10%)		\$ 39,275
TOTAL EQUIPMENT		\$ 432,025

Tangible Lease & Battery Equipment ACP		COSTS
940-001 Pumping Units & Engines		\$ -
940-002 Emission Controls		\$ -
940-002 Heaters, Treators & Separators		\$ 35,000
940-005 Tanks & Accessory Equipment		\$ 150,000
941-001 Pipeline		\$ 45,000
941-001 Facility Electrical & Automation		\$ 25,000
941-001 Overhead Electricity		\$ 12,500
941-001 Misc. Non-Controllable Equipment		\$ 25,000
Contingency (10%)		\$ 29,250
TOTAL EQUIPMENT		\$ 321,750

TOTAL COMPLETION	\$ 5,038,550
TOTAL TANGIBLE	\$ 1,010,295

TOTAL DRY HOLE COST	\$ 2,420,655
TOTAL WELL COST	\$ 7,317,030