

HARVEY E. YATES COMPANY

A MEMBER COMPANY OF HEYCO ENERGY GROUP

SEP 21:11

September 18, 2014

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.

Colby Booth

Landman

CSB
Enclosures
AirstripFedCom2HProposalLtr.doc/Land:SE Airstrip

NMOCC Case No. 15363 Hearing: SEP 6, 2016

Jalapeno EX

Southeast Airstrip Mailing List

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

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

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

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

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

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

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

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

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

Sherrfive, LP 812 Eagle Pointe Montgomery, TX 77316

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



10/23/14

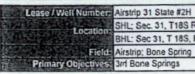
Authority For Expenditure Harvey E. Yates Company

Region	Well	Name	Maria	reld Name	Froger	y Number	AF	ENG
Permian	Airstrip 31	State #2H	Airstr	ip; Bone Spring				
	COSTA DO	MATA A STORY	- C	outh State		AVE	Tunature	
SHL; Sec. 31, T18 BHL: Sec 31, T 18	S R35E, 150° FS		-	, New Mexico	Oil Gas		EXPL PROD	
Original Estimate Revised Estimate Supplemental Estima		Decambe	r 15, 2014	Est Comp Date February 28, 201		ne Springs	18	is no Deali 5.185' atcal Depth
			Project D	escription.				
Drilling	\$ 1,972	,460 Formatio	Intangib in Testing	e (costs \$ 49,50	Con	pletion	\$	4,284,775
				e Casts	TO STATE	2100		
Lease and Well Equipment	S 256	520	leli pment	\$ 432,0		and Battery apment	s	321,750
Total Onlin Total Intargi		2,278,480 6,306.735		A.703	Total Comp Total Tang	graph () . Alternation of	\$	5.038,550 1,010,295
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Unless otherwise ind insurance procedure therefore. If you elec Operator, as to form operation. You agree insurance procured b	by Operator so let to purchase you and limits at the that failure to go Operator. I lelect to purchase procedure by Control and relate	ou, as a non-ope ong as Operator ur own well contr time this AFE it provide the certification hase my own we Operator, provide	rating work conducts of rol insurance is Returned ficate of insurance all control in is, among o	peration hereunder, you must provide, if available, but in surance, as providensurance policy, ther terms, for \$20.	agree to be and to pay y le a certifical n no event la ed herein, w	covered by your prorate te of such in ater than co ill result in 0% W.I.) of	share of to insurance to immencement your being Combined	the premiums acceptable to nent of frilling g covered by d Single Limit
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MATERIAL SPRINGS		en vertenett	arvey E Ya	tes Approval	MEN AS PO		ELSON .	ANSINE.
Harvey E. Ya	tes Company		T.W. Gree		Date	e: Tues	day, July	15, 2014
### T	Company		Joint Intere	st Approval		roved By		
	Jalapen	o Corp.		Harrey	'En'	rate	5 ,	(m



Authority For Expenditure Harvey E. Yates Company

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



Location: SHL; Sec. 31, T18S R35E, 150' FSL & 330' FWL BHL: Sec 31, T 18S, R35E, 330' FNL & 710' FWL

'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.

920-009 Abstracts & Title Opinions 920-009 Well Control Insurance 920-009 Well Control Insurance 921-000 Legal, Permits & Fees 921-000 Legal, Permits & Fees 921-001 Location, Road & ROW 921-003 IOC Daywork 921-003 IOC Daywork 921-003 IOC Daywork 921-003 IOC Daywork 921-003 Rig Fuel 921-003 Rig Fuel 921-002 IDC Footage 921-001 Location / Demobilization 921-003 Rig Fuel 921-002 IDC Footage 921-001 Drilling Overhead (Administrative Services) 922-001 Drilling Overhead (Administrative Services) 922-004 Bits & Reamers 922-000 Bits & Reamers 922-000 Pentals Sub-Surface 922-000 Drill Pipe / Motors 922-000 Drill Pipe / Motors 922-000 Drilling Expense 922-000 Drill Pipe / Motors 921-008 Well Control & Testing 921-008 Well Control & Testing 921-008 Miscellaneous IDC 921-008 Miscellaneous IDC 921-008 Miscellaneous IDC 921-004 Surface Casing Crews 921-005 Surface Float Equipment & Centralizers 921-004 Surface Casing Crews 921-007 Intermediate Cement and Cement Services 921-007 Intermediate Cement and Cement Services 921-007 Intermediate Cement and Cement Services 921-007 Intermediate Float Equipment & Centralizers 921-007 Intermediate Cement and Cement Services 921-007 Intermediate Control & Chem. 921-001 Water 921-001 Water 921-002 Water 921-003 Logging & Wireline 921-004 Surface Casing 13-3/8 's Ft. 41 Feet: 2000 \$ 8 8 9 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft. 30 Feet: 4040 \$ 12 8 9 5/8 's Ft.	lling Co	Costs E	CP		ELECTION OF		15000		cos
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Jalapeno Corporation

PO Box 1608, Albuquerque, NM. 87103 Ph: 505-242-2050 fax: 505-242-8501

> April 28, 2015 Re: Matador Airstrip State Com #20 1H Sent Return Receipt Requested

Melissa Randle, Land Manager MRC Delaware Resources LLC PO Box 1936 Roswell, New Mexico 88202-1936

Dear Melissa:

Thanks for your letter regarding the subject well which was received here on March 31st. You enclosed with your letter both an AFE and a proposed operating agreement ("JOA").

While we may be willing to participate in the proposed well, we are unwilling to execute a JOA written as you have proposed. The "non-consent" provisions included in your JOA suggest a much greater geologic risk -- a risk inherent in the vertical-well world --, but far overestimates the geologic risk inherent in the Bone Spring or Wolfcamp horizontal drilling world. Because of this, any JOA we execute with terms even approaching those you suggest would have to be limited to the well's spacing unit and be limited to the horizon to be drilled in the well's proposed lateral -- in this case the Wolfcamp formation.

In regard to your AFE we have some problems. For starters, we note the your new AFE is \$1,782,770 higher than the AFE sent out by Heyco a few months ago even though rig costs, as well as the cost of other services, have fallen since the start of the precipitous oil-price decline. Thus, we also have compared the AFE you sent for the Airstrip with AFEs from comparable wells proposed by other operators in the general area. The comparison raises some questions. For instance, COG Operating LLC's AFE for the CTA State Com # 6H has a supervision estimate of \$105,000 while your AFE has a supervision estimate of over twice as much -- \$234,000. Intangible Costs Contingencies in your AFE are \$690,017 whereas the CTA well's AFE has Intangible Costs Contingencies at \$80,000. In short, while the depth of your well is approximately 2,000 feet deeper than the CTA well, this fact by no means explains the significant additional cost of your proposed well.

Trying to get at the reason for your greatly elevated costs, we have compared the estimated drilling cost per foot from your AFE with the estimated drilling cost per foot of other well know operators in the area. The estimated drill cost per foot of COG's CTA # 6H is \$130 per foot. The estimated drill cost of Devon's Bellatrix # 4H is \$215 per foot. While Devon is

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known as a high cost operator, your AFE blows them out of the water. The proposed cost per foot of your well is \$347. As I say, we have problems with your AFE, and for obvious reasons we decline to sign it in its present condition.

Your letter proposes some alternatives to participating in the well, none of which appear to us to be reasonable. For instance, whereas Matador recently priced Heyco acreage at \$8,000 an acre, you suggest that we sell our acreage to MRC for \$1,500 an acre -- this even though the Airstrip acreage is likely among the more valuable acreage purchased by Matador.

As an alternative to your proposals, we will offer one: We would agree to sell MRC a one year term lease covering our interest in the Wolfcamp underlying the spacing unit for \$5,000 per net acre. We would reserve an ORR equal to the difference between 25% and the existing burdens. If you are interested in this, please let us know.

It is our understanding that Yates Energy joins us in this response.

Yours truly

Harvey Yates, Jr.