

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DIVISION
OIL CONSERVATION DIVISION**

**APPLICATIONS OF COLGATE OPERATING, LLC
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.**

Case Nos. 22395-22396

ENTRY OF APPEARANCE AND PRE-HEARING STATEMENT

Jalapeno Corporation ("Jalapeno") hereby enters its appearance in these matters and provides this Pre-Hearing Statement as required by Rule 19.15.4.13B NMAC and the Pre-Hearing Order. Jalapeno objects to any attempt by Colgate to force pool Jalapeno. The issues in each of the above-referenced cases are identical with respect to the relief sought in the application and the basis for Jalapeno's opposition.

APPEARANCES

APPLICANT

Colgate Operating LLC

ATTORNEY

Dana S. Hardy.
Michael Rodriguez
Hinkle Shanor. LLP
P.O. Box 2068
Santa Fe, NM 87103-2168
dhardy@hinklelawfirm.com
mrodriguez@hinklelawfirm.com

OPPONENT

Jalapeno Corporation

ATTORNEY

J.E. Gallegos
Michael J. Condon
Gallegos Law Firm, P.C.
460 St. Michael's Drive, Bldg. 300
Santa Fe, NM 87505
jeg@gallegoslawfirm.net
mjc@gallegoslawfirm.net

OTHER PARTIES

Apache Corporation

Gallagher and Kennedy
Dalva L. Moellenberg
Scott Woody
1239 Paseo de Peralta
Santa Fe, NM 87501
(505) 982-9523
(505) 983-8160
dlm@gknet.com
Scott.Woody@gknet.com

STATEMENT OF THE CASES

Colgate has filed four force pooling applications which are currently set for hearing on February 17, 2022. The applications seek to pool all uncommitted interests in horizontal spacing units comprised of Sections 16 and 17, Township 19 South, Range 28 East, Eddy County, New Mexico. The spacing units are to be dedicated to a total of four (4) Black Hawk wells (OCD cases 22395 and 22396) and four (4) Black Cat wells (22397 and 22398) in the Bone Spring formation. Jalapeno owns interests in the S/2 of Sections 16 and 17 thus is an affected party in cases 22395 and 22396

Initially, the Colgate applications were subject to competing applications by Apache Corporation in OCD cases 21851-21854. OCD records indicate that Apache has dismissed its applications.

JALAPENO'S OBJECTIONS TO THE FORCE POOLING APPLICATIONS

Jalapeno contends the applications should be denied as having any force or effect on Jalapeno for the following reasons:

1. Jalapeno has agreed to pool its interests in the affected acreage so that Colgate can drill and complete the Black Hawk wells. NMSA 1978 § 70-2-17(C) authorizes the Division to approve a force pooling application only where an interest

owner has not agreed to pool its interest. The Division lacks the authority under the statute to force pool Jalapeno in these cases. Moreover, Colgate only seeks to force pool uncommitted interests, and Jalapeno's interests are not uncommitted.

2. Jalapeno has done everything necessary to agree to pool its interests and for purposes of Section 70-2-17(C). Jalapeno first agreed to participate in the Black Hawk wells by signing AFEs provided by Colgate in December 2020 with a valid date through May 1, 2021. When delay ensued due to the competing applications, Jalapeno offered to extend those dates to September 1, 2021. Jalapeno asked that if the wells were not spudded by then, the AFEs be re-submitted to Jalapeno for review. Jalapeno asked for confirmation that Colgate would not be force pooling Jalapeno. Jalapeno offered to extend their approval of the AFEs until August 1, 2022 in light of dismissal of Apache's competing applications. Colgate has not responded to Jalapeno requests for updated AFEs and a statement by Colgate as to its intentions vis-à-vis Jalapeno. Thus, Colgate has failed to make a good faith effort to secure voluntary agreement to the extent it claims lack of an agreement with Jalapeno.

3. Jalapeno opposes issuance of any force pooling order which would require that Jalapeno pay its pro rata share for all wells up front without regard to when each well will be drilled. Jalapeno asks that any order allow for sequential payment by Jalapeno by (a) requiring that Colgate submit AFEs for its wells no sooner than 60 days before the commencement of the drilling of each well and (b) allowing Jalapeno 30 days from receipt of the AFE to make payment.

4. Colgate cannot justify the proposed 200% risk penalty. The Bone Spring formation in this area is well known and developed, thus there is little geologic risk with the proposed wells.

PROPOSED EVIDENCE

WITNESSES	EST. TIME	EXHIBITS
Emmons Yates (practical oil man/landman)	30 min.	5 approx.

Mr. Yates is the Vice President of Jalapeno. He has worked for Jalapeno for twelve years in various capacities supporting Jalapeno's oil and gas operations in the Permian Basin. He is currently in charge of Jalapeno's field operations, is responsible for analyzing Jalapeno's drilling and investment opportunities and Jalapeno's financial planning.

Mr. Yates will testify as to the matters stated in issues 1-4 above. He will testify and sponsor exhibits (email and letter communications with Colgate, signed AFEs for the Black Hawk wells) reflecting Jalapeno's agreement to participate in the Black Hawk wells. He will testify concerning his knowledge of Bone Spring wells in the vicinity of the proposed Black Hawk wells, the fact that the Bone Spring formation is significantly developed in the area, and that there is little to no geologic risk in drilling these wells. He will testify to his concerns about a 200% risk penalty if Jalapeno were to be force pooled.

PROCEDURAL ISSUES

Given the nature of the issues and Jalapeno's objections, it will be important for the examiner to evaluate the credibility of the witnesses through examination and cross-examination. Jalapeno objects to having these cases presented and decided by affidavit.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By /s/ J.E. Gallegos

J.E. GALLEGOS

MICHAEL J. CONDON

460 St. Michael's Drive, Bldg. 300

Santa Fe, New Mexico 87505

(505) 983-6686

jeg@gallegoslafirm.net

mjc@gallegoslafirm.net

Attorneys for Jalapeno

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on counsel of record by electronic mail this 10th day of February, 2022.

/s/ J.E. Gallegos
J.E. Gallegos

JALAPENO CORPORATION

P.O.BOX 1608

ALBUQUERQUE, NM 87103

PHONE: 505-242-2050

FAX: 505-242-8501

DECEMBER 17, 2020

Via Certified Mail – Return Receipt Requested
7019 2280 0001 3961 4036

Colgate Energy
303 W. Wall St.
Midland TX 79701

Attn: Mark Hajdik

**RE: Blackhawk 16 State Com wells, Madera 9 State Com well & the Klondike 9 State Com wells
Eddy County, NM, T19S-R28E**

Mr. Hajdik,

I am writing to respond to the recent mail packages Jalapeno received regarding the BLACKHAWK, the KLONDIKE and the MADERA wells and their related proposed JOA contract areas terms that would cover the drilling locations of the above-mentioned wells. Jalapeno is willing to participate in the drilling of all the wells and has so indicated with the signed AFE's. However, In regards to the proposed JOA's, we are unwilling to sign any new JOA's that have the non-consent terms that you have outlined.

Jalapeno does not believe that a 100/200/200 non-consent penalty is appropriate in today's horizontal drilling world. The actual risk of drilling a horizontal well in the Delaware Basin is much lower than the terms you have suggested. Because of this fact, Jalapeno will not consent to sign a JOA with a 100/200/200 non-consent penalty. However, Jalapeno would be willing to sign a JOA with a 100/40 non-consent penalty. If that is not appealing to you, Jalapeno would also be willing to sign a JOA with a "farmout in lieu" of a non-consent penalty. This farmout would be for a 25% back-in after payout. If you can place either of these alternative suggestions in your proposed JOA, replacing the current 100/200/200 non consent penalty, we would be happy to sign a new JOA's covering the proposed unit areas. I should point out that this may be unnecessary for the Blackhawk wells, as they appear to already be covered by the 1956 Millman WIU JOA.

Jalapeno 1

With this letter, I include the signed AFE's covering the BLACKHAWK, KLONDIKE and MADERA wells. These signed AFE's will be valid for the next 120 days. If you have not spudded the wells within the next 120 days, with the rig that will drill the wells to TD, then these signed AFE's will no longer be valid. If you still plan to drill the wells but have not spudded within the next 120 days, please resubmit new AFE's for our review.

If Colgate is unwilling to negotiate on its proposed JOA, I recommend we enter into a letter agreement like we did on the Red Bandana wells. I have attached the same form outline that we used in the past.

Please feel free to contact me so that we can discuss this in greater detail.

Sincerely,



H. Emmons Yates III

JALAPENO CORPORATION

P.O.BOX 1608
ALBUQUERQUE, NM 87103
PHONE: 505-242-2050
FAX: 505-242-8501

December 17, 2020

Colgate Energy
303 W. Wall St.
Midland TX 79701

Re: Madera 9 State Com#121H, 122H, 131H & 132H
N2 of Sections 9 & 8
T19S, R28E, Eddy County, New Mexico

Ladies and Gentlemen:

Colgate Energy Company ("Colgate") and Jalapeno Corporation ("Jalapeno") hereby agree to the following:

- 1) Jalapeno agrees to pool its working interest with that of other parties and participate in the drilling and completion of the above referenced wells on the spacing units described above.
- 2) Jalapeno agrees to pay its proportionate share of the Madera 9 State Com Wells JIB's within thirty (30) days of Jalapeno's receipt of the JIB's.
- 3) Jalapeno agrees to pay its proportionate share of overhead rates of \$8,000 per month for drilling and \$800 per month while producing for the above referenced wells as the same may be adjusted from time to time pursuant to the standard 2005 COPAS accounting procedure.
- 4) Jalapeno will be covered by all of the operators well insurance coverage, related to these wells, and agrees to pay its proportionate share of the insurance costs.
- 5) This letter agreement and the signed AFE's for Madera 9 State Com wells will only be effective until May 1, 2021, unless a rig, capable of drilling to TD, has been moved onto location before that time and has commenced drilling. However, if the drilling has not commenced by May 1, 2021, Colgate will need to resubmit new AFE's and a new letter agreement to Jalapeno for its review for all the wells that have not been spudded. If a well has been spudded while this letter agreement is still in effect, this letter agreement shall remain in effect, as to that well, until the well has ben P&A.

This letter agreement will apply to the parties hereto and their respective successors and assigns. This letter agreement is effective for all purposes as of January 1, 2021. Please sign and return a copy of this letter and the attached AFE at your earliest convenience.

Sincerely,

H. Emmons Yates III

COLGATE ENERGY

Mark Hajdik
Landman

JALAPENO CORPORATION

By: _____
Title: _____

JALAPENO CORPORATION

P.O.BOX 1608
ALBUQUERQUE, NM 87103
PHONE: 505-242-2050
FAX: 505-242-8501

December 17, 2020

Colgate Energy
303 W. Wall St.
Midland TX 79701

Re: Klondike 9 State Com#123H, 124H, 133H & 134H
S2 of Sections 9 & 8
T19S, R28E, Eddy County, New Mexico

Ladies and Gentlemen:

Colgate Energy Company ("Colgate") and Jalapeno Corporation ("Jalapeno") hereby agree to the following:

- 1) Jalapeno agrees to pool its working interest with that of other parties and participate in the drilling and completion of the above referenced wells on the spacing units described above.
- 2) Jalapeno agrees to pay its proportionate share of the Klondike 9 State Com Wells JIB's within thirty (30) days of Jalapeno's receipt of the JIB's.
- 3) Jalapeno agrees to pay its proportionate share of overhead rates of \$8,000 per month for drilling and \$800 per month while producing for the above referenced wells as the same may be adjusted from time to time pursuant to the standard 2005 COPAS accounting procedure.
- 4) Jalapeno will be covered by all of the operators well insurance coverage, related to these wells, and agrees to pay its proportionate share of the insurance costs.
- 5) This letter agreement and the signed AFE's for Klondike 9 State Com wells will only be effective until May 1, 2021, unless a rig, capable of drilling to TD, has been moved onto location before that time and has commenced drilling. However, if the drilling has not commenced by May 1, 2021, Colgate will need to resubmit new AFE's and a new letter agreement to Jalapeno for its review for all the wells that have not been spudded. If a well has been spudded while this letter agreement is still in effect, this letter agreement shall remain in effect, as to that well, until the well has ben P&A.

This letter agreement will apply to the parties hereto and their respective successors and assigns. This letter agreement is effective for all purposes as of January 1, 2021. Please sign and return a copy of this letter and the attached AFE at your earliest convenience.

Sincerely,

H. Emmons Yates III

COLGATE ENERGY

Mark Hajdik
Landman

JALAPENO CORPORATION

By: _____
Title: _____



Via Certified Mail

December 5, 2020

Jalapeno Corporation
P.O. Box 1608
Albuquerque, New Mexico 87103

RE: **Blackhawk 16 State Com Well Proposals
S/2 of Sec. 16 & S/2 Sec. 17 T19S-28E, Bone Spring Formation
Eddy County, New Mexico**

To whom it may concern:

Colgate Production, LLC ("Colgate"), hereby proposes the drilling of four (4) wells, the Blackhawk 16 State Com 123H, 124H, 133H, and 134H at the following approximate locations:

Blackhawk 16 State Com 123H

SHL: To be located at a legal location in Units I/P of Section 16-19S-28E

BHL: To be located at a legal location in Unit L Section 17-19S-28E

TVD: 7,450'

TMD: Approximately 17,500'

Targeted Interval: 2nd Bone Spring

Total Cost: See attached AFE

Blackhawk 16 State Com 124H

SHL: To be located at a legal location in Units I/P of Section 16-19S-28E

BHL: To be located at a legal location in Unit M of Section 17-19S-28E

TVD: 7,450'

TMD: Approximately 17,500'

Targeted Interval: 2nd Bone Spring

Total Cost: See attached AFE

Blackhawk 16 State Com 133H

SHL: To be located at a legal location in Units I/P of Section 16-19S-28E

BHL: To be located at a legal location in Unit L of Section 17-19S-28E

TVD: 8,600'

TMD: Approximately 18,600'

Targeted Interval: 3rd Bone Spring

Total Cost: See attached AFE

Blackhawk 16 State Com 134H

SHL: To be located at a legal location in Units I/P of Section 16-19S-28E

BHL: To be located at a legal location in Unit M of Section 17-19S-28E

TVD: 8,600'

TMD: Approximately 18,600'

Targeted Interval: 3rd Bone Spring

Total Cost: See attached AFE

The locations, TVD's, and targets are approximate and subject to change depending on surface or subsurface issues encountered. Colgate is proposing to drill these wells under the modified terms of the 1989 AAPL Operating Agreement and a form of said Operating Agreement will be forwarded to you following your receipt of your election to participate. The Operating Agreement will have the following general provisions:

- 100%/200%/200% non-consent provisions
- \$8,000/\$800 drilling and producing rates
- Colgate Operating, LLC named as Operator

Please indicate your election to participate in the drilling and completion of the proposed wells in the space provided below. Please sign and return one copy of this letter, a signed copy of the previously proposed AFE, and your geologic well requirements.

Colgate will apply to the New Mexico Oil Conservation Division for compulsory pooling of your interest into a spacing unit for the proposed well, should we not reach an agreement within 30 days of the date of this letter. If you do not wish to participate Colgate would be interested in acquiring your interest in the subject lands.

If you have any questions regarding this matter, please give me a call at 432-257-3886 or via email at mhajdik@colgateenergy.com.

Sincerely,



Mark Hajdik
Senior Landman

Colgate Energy
300 N. Marienfeld St.
Suite 1000
Midland, TX 79701

Enclosures

Well Elections

- I/We hereby elect to participate in the Blackhawk 16 State Com 123H.
- I/We hereby elect NOT to participate in the Blackhawk 16 State Com 123H.
- I/We hereby elect to participate in the Blackhawk 16 State Com 124H.
- I/We hereby elect NOT to participate in the Blackhawk 16 State Com 124H.
- I/We hereby elect to participate in the Blackhawk 16 State Com 133H.
- I/We hereby elect NOT to participate in the Blackhawk 16 State Com 133H.
- I/We hereby elect to participate in the Blackhawk 16 State Com 134H.
- I/We hereby elect NOT to participate in the Blackhawk 16 State Com 134H.

Jalapeno Corp.

Working Interest Owner: By: [Signature]

Printed Name: H. Emmet Jones, III, V.P.

Date: Dec 17, 2020

*Valid until 5/1/21
ry

Colgate Energy

289 W. Wall St., Midland TX 79701
Phone (432) 695-4287 • Fax (432) 695-4063

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	12/3/2020	AFE NO.:	0
WELL NAME:	Blackhawk 16 State Com 123H	FIELD:	Winchester; Bone Spring
LOCATION:	Parkway	MD/YVD:	18129 / 7442
COUNTY/STATE:	Eddy	LATERAL LENGTH:	10,360
Colgate WT:	0.06%	DRILLING DAYS:	20.6
GEOLOGIC TARGED:	2nd Bone Spring	COMPLETION DAYS:	16

REMARKS: Drill and Complete 60 stages in the 2nd Bone Spring formation. AFE includes D&C, flowback & initial ESP install.

INTANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
1 Land / Legal / Regulatory	150,000			150,000
2 Location, Surveys & Designs	15,500	15,000	10,000	45,500
4 Freight / Transportation	15,500	15,500		31,000
5 Rental - Surface Equipment	55,300	135,150	4,600	245,050
6 Rental - Downhole Equipment	68,750	52,000		120,750
7 Rental - Living Quarters	35,540	43,700	5,300	84,540
10 Directional Drilling, Surveys	188,350			188,350
11 Drilling	278,824			278,824
12 Drill Bits	81,000			81,000
13 Fuel & Power	67,638	210,000		277,638
14 Cementing & Float Equip	155,000			155,000
16 Perforating, Wireline, Slickline		250,750	5,000	255,750
17 High Pressure Pump Truck		10,800		10,800
18 Completion Unit, Swab, CTU		150,000	22,000	172,000
20 Mud Circulation System	83,144			83,144
21 Mud Logging	19,009			19,009
22 Logging / Formation Evaluation	675	8,000		8,675
23 Mud & Chemicals	98,516	308,000		406,516
24 Water	24,150	505,000		529,150
25 Stimulation		730,000		730,000
26 Simulation Flowback & Dip		94,000		94,000
28 Mud / Wastewater Disposal	91,938	65,000		156,938
30 Rig Supervision / Engineering	95,905	75,400	9,800	180,105
32 Drig & Completion Overhead	7,225			7,225
35 Labor	108,500	30,500	10,000	149,000
36 Permpant		436,156		436,156
35 Insurance	37,632			37,632
37 Contingency	97,274	15,242	5,368	117,884
39 Plugging & Abandonment				
TOTAL INTANGIBLES >	3,042,761	3,802,080	65,668	5,449,499
TANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
60 Surface Leasing	9,000			9,000
61 Intermediate Casing	69,726			69,726
62 Drilling Liner				
63 Production Casing	238,396			238,396
64 Production Liner				
65 Tubing			34,911	34,911
66 Wellhead	64,000		48,900	112,900
67 Packers, Liner Hangers	22,000		3,200	25,200
68 Tanks				
69 Production Vessels				
70 Flow Lines				
71 Well string				
72 Artificial Lift Equipment				
73 Compressor			80,000	80,000
74 Installation Costs				
75 Surface Pumps			35,000	35,000
76 Downhole Pumps			5,000	5,000
77 Measurement & Meter Installation			4,850	4,850
78 Gas Conditioning / Dehydration				
79 Interconnecting Facility Piping				
80 Gathering / Bunk Lines				
81 Valves, Drumps, Controlhous				
82 Tank / Facility Containment				
83 Flow Stack				
84 Electrical / Grounding			60,000	60,000
85 Communications / SCADA				
86 Instrumentation / Safety				
TOTAL TANGIBLES >	683,712	0	259,261	942,973
TOTAL COSTS >	2,446,873	3,802,080	324,929	6,312,462

PREPARED BY Colgate Energy:

Drilling Engineer:	Steven Sigral	
Completions Engineer:	Bruce Adams	CRM
Production Engineer:	Leif Harms	

Colgate Energy APPROVAL:

Co-CEO	_____	Co-CEO	_____	VP - Operations	_____
VP - Land & Legal	_____	VP - Geosciences	_____		_____

NON OPERATING PARTNER APPROVAL:

Company Name:	_____	Working Interests (%):	_____	Trax ID:	95-0413958
Signed by:	_____	Date:	12/14/20		
Title:	H. Memo H. Hicks III V.P.	Approved:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No (mark out)		

The data within this authorization only and may not be provided as evidence of any liability or as the legal basis of the project. Taking measures approved under this AFE may be delayed or stopped after the well has been completed. By executing this AFE, the Participant agrees to pay the pro-rata share of actual and estimated drilling, completion, operating, abandonment and other costs under the terms of the applicable joint operating agreement. Any delay or other agreement regarding this well, participation shall be approved by and held proportionately for the benefit of the Operator's well without any general liability to any other participant. Operator shall not be liable for any delay or other agreement regarding this well, participation shall be approved by and held proportionately for the benefit of the Operator's well without any general liability to any other participant.

Colgate Energy
303 W. Wall St., Midland TX 79701
Phone (432) 695-4257 • Fax (432) 695-4863

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	12/3/2020	AFE NO.:	0
WELL NAME:	Blackhawk 16 State Com 124H	FIELD:	Winchester; Bone Spring
LOCATION:	Parikway	MD/YVD:	18129 / 7442
COUNTY/STATE:	Eddy	LATERAL LENGTH:	10,360
Colgate WE:	0.00%	DRILLING DAYS:	20.6
GEOLOGIC TARGET:	2nd Bone Spring	COMPLETION DAYS:	16

REMARKS: Drill and Complete 66 stages in the 2nd Bone Spring formation. AFE includes D&C, flowback & initial ESP install.

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
INTANGIBLE COSTS				
1 Land / Legal / Royalties	31,000			31,000
2 Location, Surveys & Damages	150,000	13,000	10,000	173,000
4 Freight / Transportation	85,500	36,750		122,250
5 Rental - Surface Equipment	25,500	150,450	4,000	210,950
6 Rental - Downhole Equipment	82,799	56,000		138,799
7 Rental - Living Quarters	18,550	45,700		64,250
10 Directional Drilling, Surveys	181,350		5,200	186,550
11 Drilling	475,328			475,328
12 Drill Bits	81,600			81,600
13 Fuel & Power	17,833	210,000		227,833
14 Cementing & Float Equip	155,000			155,000
16 Perforating, Wireline, Slickline	-	251,750	8,000	259,750
17 High Pressure Pump Truck	-	10,000		10,000
18 Completion Unit, Swab, CTU	-	155,000	12,000	167,000
20 Mud Circulation System	83,144			83,144
21 Mud Logging	19,499			19,499
22 Logging / Formation Evaluation	4,684	8,000		12,684
23 Mud & Chemicals	98,510	300,000		398,510
24 Water	28,190	509,302		537,492
25 Stimulation	-	720,000		720,000
26 Stimulation Flowback & Disp	-	54,000		54,000
28 Mud / Wastewater Disposal	96,938	63,000		159,938
30 Rig Supervision / Engineering	55,975	79,600	9,200	144,775
33 Drig & Completion Overhead	7,225	-		7,225
35 Labor	185,500	30,500	10,000	226,000
36 Proppant	-	435,156		435,156
38 Insurance	32,632			32,632
39 Contingency	57,274	154,212	5,500	217,086
39 Hugging & Abandonment	-	-	-	-
TOTAL INTANGIBLES >	2,042,761	3,332,080	65,648	5,440,489
TANGIBLE COSTS				
40 Surface Casings	3,590			3,590
61 Intermediate Casings	69,725			69,725
62 Drilling Lines	-			-
63 Production Casings	238,396			238,396
64 Production Lines	-			-
65 Tubing	-		30,911	30,911
66 Wellhead	64,000		48,900	112,900
67 Packers, Liner Hangers	22,000		3,500	25,500
68 Tanks	-			-
69 Production Vessels	-			-
70 Flow Lines	-			-
71 Rod string	-			-
72 Artificial Lift Equipment	-		80,000	80,000
73 Compressor	-			-
74 Installation Costs	-		35,000	35,000
75 Surface Pumps	-		5,000	5,000
76 Downhole Pumps	-		4,950	4,950
77 Measurement & Meter Installation	-			-
78 Gas Conditioning / Dehydration	-			-
79 Interconnecting Facility Piping	-			-
80 Gathering / Bulk Lines	-			-
81 Valves, Chumps, Control Boxes	-			-
82 Tank / Facility Containment	-			-
83 Flare Stack	-			-
84 Electrical / Grouting	-		80,000	80,000
85 Communications / SCADA	-			-
86 Instrumentation / Safety	-			-
TOTAL TANGIBLES >	403,712	0	260,361	674,073
TOTAL COSTS >	2,446,473	3,332,080	323,909	6,112,462

PREPARED BY Colgate Energy:

Drilling Engineer:	Steven Segrest	
Completions Engineer:	Wesley Adams	CRM
Production Engineer:	Levi Harris	

Colgate Energy APPROVAL:

Co-CBO	WH	Co-CBO	JW	VP - Operations	CRM
VP - Land & Legal	LC	VP - Geosciences	SO		

NON OPERATING PARTNER APPROVAL:

* valid until 5/1/21

Company Name: Jalagena Corporation Working Interest (%): _____ Tax ID: 85-041-5988

Signed by: [Signature] Date: 12/17/20

Title: H. Johnson, III, V.P. Approval: Yes No (mark one)

The AFE on this form reflects only and may not be construed as evidence of any agreement or the intent of the parties. Taking parties approved under the AFE may be subject to a year after the well has been completed. In executing the AFE, the Participant agrees to pay its proportionate share of actual costs not reflected in the AFE, including, but not limited to, regulatory, financing and other costs, to the extent of the applicable cost recovery agreement, up to the amount of the AFE. Participant shall be deemed to have approved the AFE and shall be deemed to have agreed to the Operator's well cost and general liability insurance unless participant provides written notice to the Operator.

Colgate Energy
303 W. Wall St., Midland TX 79701
Phone (432) 695-6257 • Fax (432) 695-6063

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE	12/3/2020	AFE NO:	0
WELL NAME	Blackhawk 16 State Com 133H	FIELD:	Winchester; Bone Spring
LOCATION	Parkway	MD/IVD:	19339 / 8652
COUNTY/STATE	Eddy	LATERAL LENGTH:	10,360
Colgate Well	0.00%	DRILLING DAYS:	23.25
GEOLOGIC TARGET:	3rd Bone Spring	COMPLETION DAYS:	16

REMARKS: Drill and Complete 60 stages in the 3rd Bone Spring formation, AFE includes D&C, flowback & initial ESP install

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
INTANGIBLE COSTS				
1 Land / Legal / Regulatory	\$ 3,000			\$ 3,000
2 Location, Surveys & Damages	150,000	15,000		165,000
4 Freight / Transportation	55,500	30,750	30,000	116,250
5 Rental - Surface Equipment	82,354	150,400	4,640	237,414
6 Rental - Downhole Equipment	68,799	54,000		124,799
7 Rental - Logging	38,583	45,700		84,283
10 Directional Drilling, Surveys	237,200		5,200	242,400
11 Drilling	521,597			521,597
12 Drill Bits	112,500			112,500
13 Fuel & Power	75,679	210,000		285,679
14 Cementing & Floot Equip	155,000			155,000
15 Performing, Wireline, Gelsolines		260,750	6,000	266,750
17 High Pressure Pump Truck		10,000		10,000
18 Completion Unit, Swabs, CTU		150,000	12,048	162,048
20 Mud Circulation Systems	91,730			91,730
21 Mud Logging	21,725			21,725
22 Logging / Formation Evaluation	4,284	8,000		12,284
23 Fluid & Chemicals	108,354	308,000		416,354
24 Water	28,425	543,728		572,153
25 Stimulation		220,000		220,000
26 Stimulation Flowback & Disp		94,000		94,000
28 Mud / Waterweight Disposal	96,938	73,000		169,938
30 Rig Supervision / Engineering	108,322	79,400	5,800	193,522
32 Drig & Completion Overhead	8,719			8,719
35 Labor	188,500	20,500	70,000	279,000
54 Proppant		496,076		496,076
55 Insurance	34,810			34,810
57 Contingency	106,302	159,333	5,968	271,598
59 Plugging & Abandonment				
TOTAL INTANGIBLES >	2,232,334	3,438,986	65,682	5,736,962
TANGIBLE COSTS				
60 Surface Casing	\$ 9,370			\$ 9,370
61 Intermediate Casing	69,725			69,725
62 Drilling Tools				
63 Production Casing	254,308			254,308
64 Production Liner				
65 Tubing			36,354	36,354
66 Wellhead	64,000		48,900	112,900
67 Packers, Liner Hangers	22,800		3,500	26,300
68 Tanks				
69 Production Vessels				
70 Flow Lines				
71 Rod string				
72 Artificial Lift Equipment			80,000	80,000
73 Compressor				
74 Installation Costs			35,000	35,000
75 Surface Pumps			5,000	5,000
76 Downhole Pumps			4,950	4,950
77 Measurement & Meter Installation				
78 Gas Conditioning / Dehydration				
79 Interconnecting Facility Hying				
80 Gathering / Bulk Lines				
81 Valves, Drumps, Controllers				
82 Tank / Facility Containment				
83 Haze Stack				
84 Electrical / Grounding			60,000	60,000
85 Communications / SCADA				
86 Instrumentation / Safety				
TOTAL TANGIBLES >	439,623	0	273,706	653,329
TOTAL COSTS >	2,671,957	3,438,986	839,388	6,450,287

PREPARED BY Colgate Energy:

Drilling Engineer:	Steven Segrest	
Completions Engineer:	Brady Adams	CRM
Production Engineer:	Levi Harris	

Colgate Energy APPROVAL:

Co-CEO	_____	Co-CFO	_____	VP - Operations	_____ CRM
VP - Land & Legal	_____ WH	VP - Geosciences	_____ JW		
	_____ BC		_____ SO		

NON OPERATING PARTNER APPROVAL:

Company Name: Taligent Permian Working Interest (%): _____ Tax ID: 85-0413988

Signed by: [Signature] Date: 12/17/20

Title: Head of Sales III, V.P. Approval: Yes No (mark one)

The table on this AFE is for informational purposes only and may not be required as a condition of the lease. Table information is provided for the AFE. Any delay in the AFE may be subject to the well has been completed. By executing this AFE, the Participant agrees to pay the appropriate share of actual costs incurred, including legal, engineering, geology and other costs under the terms of the applicable operating agreement, including under an other agreement relating to this well. Distribution shall be determined by and shall be proportional to the Operator's well owned and grand liability interest unless otherwise provided in an operating agreement or otherwise approved by the Operator's well owner and grand liability interest unless otherwise provided in an operating agreement.

Colgate Energy
 303 W. Wall St., Midland TX 79701
 Phone (432) 695-4257 • Fax (432) 695-4063

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	12/3/2020	APENQ:	0
WELL NAME:	Blackhawk 16 State Corn 134H	FIELD:	Winchester; Bone Spring
LOCATION:	Parkway	MD/TVR:	19339 / 8652
COUNTY/STATE:	Hidalgo	LATERAL LENGTH:	10,360
Colgate WE:	0.00%	DRILLING DAYS:	23.25
GEOLOGIC TARGET:	3rd Bone Spring	COMPLETION DAYS:	16

REMARKS: Drill and Complete 60 stages in the 3rd Bone Spring formation. AFE includes D&C, flowback & initial ESP install.

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
INTANGIBLE COSTS				
1 Land / Legal / Regulatory	11,000			11,000
2 Location, Surveys & Damages	150,000	15,000		165,000
4 Freight/Transportation	55,500	55,750	10,000	121,250
5 Rental - Surface Equipment	82,324	150,450	4,640	237,414
6 Rental - Downhole Equipment	65,799	55,000		120,799
7 Rental - Living Quarters	38,583	45,700	5,200	89,483
10 Directional Drilling, Surveys	297,260			297,260
11 Drilling	571,597			571,597
12 Drill Bits	119,500			119,500
13 Fuel & Power	75,679	210,000		285,679
14 Cementing & Float Equip	155,000			155,000
16 Pectroflow, Wireline, Slickline		250,750	8,000	258,750
17 High Pressure Pump Truck		10,000		10,000
18 Completion Unit, Swab, CTU		160,000	12,640	172,640
20 Mud Circulation System	91,730			91,730
21 Mud Logging	21,725			21,725
22 Logging / Formation Evaluation	8,256	8,000		16,256
23 Mud & Chemicals	106,356	308,000		414,356
24 Water	28,435	543,228		571,663
25 Remediation		725,000		725,000
26 Subsurface Flowback & Drip		94,000		94,000
28 Mud / Wastewater Disposal	96,938	73,000		169,938
30 Rig Supervision / Engineering	108,322	79,600	9,800	197,722
32 Dig. & Completion Overhead	8,719			8,719
35 Labor	188,500	30,500	10,000	229,000
54 Proppant		450,676		450,676
55 Insurance	34,810			34,810
57 Contingency	106,302	139,333	5,908	251,602
99 Flagging & Abandonment				
TOTAL INTANGIBLES >	2,232,834	3,438,986	65,648	5,737,468
TANGIBLE COSTS				
40 Surface Casing	9,500			9,500
41 Intermediate Casing	69,725			69,725
62 Drilling Liner				
63 Production Casing	254,308			254,308
64 Production Liner				
65 Tubing			36,356	36,356
66 Wellhead	64,600		48,900	113,500
67 Packers, Liner Hangers	22,800		3,500	26,300
68 Tanks				
69 Production Vessels				
70 Flow Lines				
71 Rod string				
72 Artificial Lift Equipment				
73 Compressor			80,000	80,000
74 Installation Costs				
75 Surface Pumps			35,000	35,000
76 Downhole Pumps			5,000	5,000
77 Measurement & Meter Installation			4,950	4,950
78 Gas Conditioning / Dehydration				
79 Interconnecting Facility Piping				
80 Gathering / Baffle Lines				
81 Valves, Churns, Controllers				
82 Tank / Facility Construction				
83 Flare Stack				
84 Electrical / Grounding				
85 Communications / SCADA			20,000	20,000
86 Instrumentation / Safety				
TOTAL TANGIBLES >	419,623	0	279,706	699,329
TOTAL COSTS >	2,652,457	3,438,986	379,354	6,470,797

PREPARED BY Colgate Energy:

Drilling Engineer:	Steven Segren	
Completion Engineer:	Brady Adams	CRM
Production Engineer:	Levi Harris	

Colgate Energy APPROVAL:

Co-CEO	WR	Co-CEO	JW	VP - Operations	CRM
VP - Land & Legal	BC	VP - Geosciences	SO		

NON OPERATING PARTNER APPROVAL:

*Valid until 5/1/21

Company Name: Talavera Corporation Working Interest (%): _____ Tax ID: 85-2413986

Signed by: [Signature] Date: 12/14/20

Title: H. Emmett Kites, III, V.P. Approval: Yes No (mark one)

The costs on this AFE are estimates only and may not be identical to billings on any given day or the total cost of the project. Taking liabilities approved under this AFE may be subject to a 10% cost cap. In executing this AFE, the Participant agrees to pay the pro-rata share of all costs incurred, including legal, overhead, regulatory, hedging and well stem costs for the term of the wellhead joint operating agreement, regulatory, order or other agreement covering this well. Participants shall be bound by and hold the Operator jointly and severally liable for Operator's wellhead and general liability insurance unless participant provides Operator with an alternative that is acceptable to the Operator by the AFE if any day.

From: Mark Hajdik <MHajdik@colgateenergy.com>
Sent: Thursday, May 6, 2021 8:25 AM
To: kreese@jalapenocorp.com
Cc: Emmons Yates <eyates@jalapenocorp.com>
Subject: RE: [EXTERNAL] Colgate's proposed Blackhawk 16 St Com wells - S/2 Sections 16 & 17, T19S-R28E, Eddy Co, NM

These hearings have been pushed pretty far out. Will keep you updated.

Thanks

Mark Hajdik | Colgate Energy | Senior Landman
300 N. Marienfeld St. | Suite 1000 | Midland, TX 79701
O: (432) 257-3886 | C: (832) 904-6006
Email: mhajdik@colgateenergy.com

From: kreese@jalapenocorp.com <kreese@jalapenocorp.com>
Sent: Monday, March 22, 2021 3:01 PM
To: Mark Hajdik <MHajdik@colgateenergy.com>
Cc: Emmons Yates <eyates@jalapenocorp.com>
Subject: [EXTERNAL] Colgate's proposed Blackhawk 16 St Com wells - S/2 Sections 16 & 17, T19S-R28E, Eddy Co, NM

***** Attention: This is an external email, use caution. *****

Good morning Mark,

Jalapeno received a Notice of Compulsory Pooling for the Blackhawk 16 State Com wells on March 19, 2021.

In December, we elected to participate in the wells and signed the AFE's. The signed AFE's were valid until 5/1/2021 and Jalapeno requested that after that date, if the wells had not spudded, to resubmit AFE's for our review.

Due to the fact that you are now dealing with force pooling other working interest owners and working out whether Colgate or Apache will be drilling/operating in the area, as a courtesy, we are extending our elections to participate and the approval of the AFE's 4 months from 5/1/2021 until 9/1/2021. After that date, if you have not spudded the wells, please re-submit the AFE's for our review and approval.

Because we received notice of the force pooling action filed with the OCD, please confirm that Jalapeno Corporation is not being force pooled in these wells.

If you have any questions, please let me know.

Best regards,

Kathryn J. Reese, CPL
Landman
Jalapeño Corporation
P.O. Box 1608

Jalapeno 2

Albuquerque, NM 87103-1608
Phone: 505.242.2050
Fax: 505.242.8501

From: kreese@jalapenocorp.com <kreese@jalapenocorp.com>
Sent: Tuesday, February 8, 2022 4:11 PM
To: 'Mark Hajdik' <MHajdik@colgateenergy.com>
Cc: 'Emmons Yates' <eyates@jalapenocorp.com>
Subject: RE: [EXTERNAL] Colgate's proposed Blackhawk 16 St Com wells - S/2 Sections 16 & 17, T19S-R28E, Eddy Co, NM

Mark,
Thanks for getting back to me.
I've attached the proposed letter agreement for your review.

Kathryn

From: Mark Hajdik <MHajdik@colgateenergy.com>
Sent: Tuesday, February 8, 2022 3:25 PM
To: kreese@jalapenocorp.com
Cc: Emmons Yates <eyates@jalapenocorp.com>
Subject: Re: [EXTERNAL] Colgate's proposed Blackhawk 16 St Com wells - S/2 Sections 16 & 17, T19S-R28E, Eddy Co, NM

Kathryn, apologies I'm on the road right now. Could you send the agreement you are proposing and I will take a look?

| Mark Hajdik | 832-904-6006 | mhajdik@colgateenergy.com |

On Feb 8, 2022, at 11:58 AM, kreese@jalapenocorp.com wrote:

***** Attention: This is an external email, use caution. *****

Good morning Mark,

Given that Apache has dismissed their competing applications for compulsory pooling, and Colgate will be operating, we will make our AFE's valid until 8/1/22.
Since the Colgate's compulsory hearing is scheduled for February 17th and Jalapeno has elected to participate in the wells and signed AFE's to participate, please confirm that Jalapeno is not being force pooled.

Thanks,

Kathryn J. Reese, CPL
Landman
Jalapeno Corporation
P.O. Box 1608
Albuquerque, NM 87103-1608
Phone: 505.242.2050
Fax: 505.242.8501

Jalapeno 3

From: Mark Hajdik <MHajdik@colgateenergy.com>
Sent: Thursday, May 6, 2021 9:25 AM
To: kreese@jalapenocorp.com
Cc: Emmons Yates <eyates@jalapenocorp.com>
Subject: RE: [EXTERNAL] Colgate's proposed Blackhawk 16 St Com wells - S/2 Sections 16 & 17, T19S-R28E, Eddy Co, NM

These hearings have been pushed pretty far out. Will keep you updated.

Thanks

December 9, 2021

Jalapeno Corporation
Attn: Emmons Yates
P.O. Box 1608
Albuquerque, NM 87103

Re: Letter Agreement
Farmout in Lieu of Non-Consent Penalty
Joint Operating Agreement dated _____
JOA description & depth limitations
County, State

Dear _____

This letter agreement shall evidence the agreement between _____ ("____") and Jalapeno Corporation ("Jalapeno") concerning the referenced Joint Operating Agreement ("JOA").

The Parties hereby agree as follows:

1. Jalapeno agrees to execute the JOA, subject to this letter agreement.
2. As between _____ and Jalapeno, the provisions of Article VI.B. of the JOA shall be subject to the provisions set forth below. To the extent that provisions set forth below do not apply, the provisions of Article VI.B of the JOA shall govern and control.
3. Should Jalapeno elect not to participate in the drilling of any well proposed under the JOA, its working interest in the wellbore of such well shall be farmed out to _____ on a produce to earn basis. In the event such well is thereafter drilled to its proposed measured depth and completed as a well capable of producing oil and/or gas, _____ shall earn assignment of Jalapeno's working interest in and to such well. Thereafter, upon receipt of a written request from _____, Jalapeno shall execute and deliver to _____ an assignment of all its leasehold working interest in the Contract Area, without warranty of title, either express or implied, and expressly limited to the wellbore of such well and the production of oil and gas therefrom.
4. Such assignment shall reserve unto Jalapeno (a) an overriding royalty interest in and to the oil, gas, casinghead gas, condensate, and other liquid hydrocarbons produced, saved and marketed from such well equal to the positive difference between all existing lease royalty and overriding royalty burdens and 25% of 8/8ths, proportionately reduced to Jalapeno's interest in the assigned leasehold ("Retained ORRI"), delivering a 75% net revenue interest to _____, and (b) the option, upon "Payout" of the such well (as hereinafter defined), to convert its Retained ORRI to a proportionate twenty-five percent (25%) working interest in the well bore of such well together with all equipment and other personal property in said well or used or obtained in connection with the operation of said well (such 25% working interest to be proportionately reduced to the assigned interest and hereinafter referred to as "Back-In Interest").

Jalapeno 4

Jalapeno Corporation

Date

Page 2

5. Payout shall be defined as the first day of the month after the point in time in which the actual cumulative proceeds from the sale of production from the well, after deducting severance/production taxes and all applicable royalties and overriding royalties (including the Retained ORRI) exceeds equals one hundred percent (100%) of the actual total cost of drilling, completing, equipping, and operating such well prior to Payout (including the actual cost of any workovers or re-working of the well). Such cumulative proceeds and total costs shall be calculated as to the working interest assigned pursuant to paragraph 3. above.
6. On a quarterly basis prior to Payout, _____ shall furnish Jalapeno with payout statements summarizing the proceeds and costs as set out in paragraph 5. above. Upon Payout, _____ shall notify Jalapeno in writing by certified mail, and Jalapeno shall have 15 days from receipt of such notice to make written election to _____ to exercise its option as set forth in paragraph 4 (b) above. Should Jalapeno elect to exercise said option, _____ shall thereafter execute and deliver to Jalapeno for its execution an assignment evidencing the conversion as described in paragraph 4 above.
7. The provisions of this letter agreement shall only apply to a well in which Jalapeno elects, or is deemed to have elected, not to participate pursuant to the provisions of the JOA. In the event Jalapeno elects not to participate in a well proposed under the JOA and such well is not timely commenced under the JOA, this letter agreement shall have no force an effect as to such well.
8. This letter agreement shall inure to the benefit of the parties hereto and their respective successors and assigns

Please sign in the space provided below to indicate your acceptance and agreement as to provisions set forth above, and return an executed copy of this letter agreement to the undersigned at your earliest convenience.

Best Regards,

Company Name

By: _____
Title _____

Accepted and Agreed to this _____ day of _____, 20____.

Jalapeno Corporation

By: _____
H. Emmons Yates III
Vice President

District I
 1625 N. French Dr., Hobbs, NM 88240
 Phone:(575) 393-6161 Fax:(575) 393-0720

District II
 811 S. First St., Artesia, NM 88210
 Phone:(575) 748-1283 Fax:(575) 748-9720

District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV
 1220 S. St Francis Dr., Santa Fe, NM 87505
 Phone:(505) 476-3470 Fax:(505) 476-3462

State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
1220 S. St Francis Dr.
Santa Fe, NM 87505

QUESTIONS

Action 80692

QUESTIONS

Operator: JALAPENO CORPORATION P.O. Box 1608 Albuquerque, NM 87103	OGRID: 26307
	Action Number: 80692
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

Testimony	
<i>Please assist us by provide the following information about your testimony.</i>	
Number of witnesses	Not answered.
Testimony time (in minutes)	Not answered.