

## MRC Permian Company

One Lincoln Centre • 5400 LBJ Freeway • Suite 1500 • Dallas, Texas 75240  
Voice 972.371.5200 • Fax 972.371.5201

September 23, 2013

### VIA CERTIFIED MAIL

Zia Royalty, LLC  
P.O. Box 2160  
Hobbs, NM 88241-2160

RE: Oil & Gas Lease of property located in Eddy County, New Mexico  
Township 24 South, Range 27 East Section 12: S2 (320 acres, more or less)

Dear Zia Royalty LLC,

New Mexico Eddy County records indicate that Zia Royalty LLC. may own an undivided .01333333 mineral interest (.5333332 net mineral acres) in 320 acres more or less located in Township 24 South, Range 27 East Section 12: S2 (the "Property"). MRC Permian Company is interested in acquiring an oil and gas lease covering all of the interest in said Property on the following terms:

Primary term:	three (3) years
Bonus:	\$1,000 per net acre
Royalty:	twenty five percent (25.0%)
Other terms:	as shown on the enclosed lease

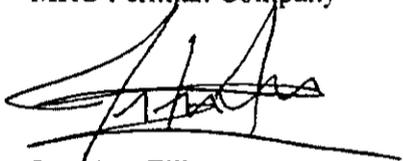
Alternatively, I have enclosed MRC Permian Company's cost estimate for the proposed MRC Permian Company's Rustler Breaks 12-24-27 #1H well (the "Well") for the use in determining whether you wish to participate in the drilling of this Well or not. The Well is being permitted as a horizontal Wolfcamp at SHL 380 feet FSL & 330 feet FEL of Section 12, T24S, R27E, Eddy Co., NM and a BHL 380 feet FSL & 330 feet FWL of Section 12, T24S, R27E, Eddy Co., NM. Estimated TVD is 10,500 feet and estimated MD is 14,950 feet. The project Area for this Well will be the S2S2 of Section 12 all in T24S, R27E (320.0 acres). The estimated completed Well cost is \$7,710,967.00.

In the event you decide to lease, please properly execute the lease and forward same to the attention of the undersigned at the letterhead address. Upon receipt of the properly executed original lease and confirmation of good and marketable title to the Property, a check for the bonus will be forwarded to you. In the event that you elect to participate in this Well, please forward a signed copy of the cost estimate. If you elect to participate in the Well, a 1989 Model Form Operating Agreement naming MRC Permian Company as operator and providing for non-consent penalties of 100%/300%/300% as well as \$7,000/\$700 drilling/producing rates, respectively, and other terms as they appear will be forwarded for your review and execution after confirmation of good and marketable title to the Property. Please review these materials at your earliest convenience and make your election at the earliest possible date.

Thank you in advance for your prompt attention to this matter. If you have any questions, please contact the undersigned at (972) 371-5275 or by e-mail at [jfilbert@matadorresources.com](mailto:jfilbert@matadorresources.com).

Sincerely,

MRC Permian Company



Jonathan Filbert  
Senior Staff Landman

Phone: 972-371-5275

Cell: 972-814-6347

[jfilbert@matadorresources.com](mailto:jfilbert@matadorresources.com)



Enclosures (2)

**MATADOR PRODUCTION COMPANY**  
 ONE LINCOLN CENTRE • 5400 LBJ FREEWAY • SUITE 1500 • DALLAS, TEXAS 75240  
 Phone (972) 371-5200 • Fax (972) 371-5201

**ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE**

DATE:	June 1, 2013	AFE NO.:	0
WELL NAME:	Rustler Breaks 12 24-27 #1H	FIELD:	Wolfcamp
LEASE NAME:	Rustler Breaks	OPERATOR:	Matador Production Company
REMARKS:	Drill a 15,000' MD well with 3900' of completable lateral into the Wolfcamp		
LOCATION:	Eddy County, NM		
COUNTY:	Eddy	STATE:	NM
MRC WI:		PREPARED BY:	AMB/KB
		PROPOSED TVD:	10,500'
		Expl or Devel:	Exploratory
		Days:	27

INTANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	TOTAL COSTS
01 Land / Legal / Regulatory	\$ 36,700	\$	\$ 36,700
02 Location, Surveys & Damages	136,500	131,500	268,000
10 Drilling	816,000		816,000
16 Cementing & Float Equip	220,000		220,000
20 Logging / Formation Evaluation	231,000	7,500	238,500
21 Mud Logging	34,900		34,900
23 Mud Circulation System	98,180		98,180
24 Mud & Chemicals	105,000	20,000	125,000
25 Mud / Wastewater Disposal	130,000	-	130,000
26 Freight / Transportation	36,000	19,500	55,500
28 Rig Supervision / Engineering	111,600	120,150	231,750
31 Drill Bits	75,000		75,000
32 Fuel & Power	196,000	-	196,000
33 Water	12,500	322,500	335,000
34 Drg & Completion Overhead	15,500	23,000	38,500
36 Plugging & Abandonment	-		-
38 Directional Drilling, Surveys	192,000		192,000
40 Completion Unit, Swab, CTU	-	197,000	197,000
44 Perforating, Wireline, Slickline	-	128,000	128,000
45 High Pressure Pump Truck	-	32,000	32,000
46 Stimulation	-	1,575,000	1,575,000
47 Stimulation Flowback & Disp	-	54,500	54,500
48 Insurance	27,900		27,900
50 Labor	127,500	46,050	173,550
51 Rental - Surface Equipment	107,450	206,725	314,175
52 Rental - Downhole Equipment	30,000	57,500	87,500
53 Rental - Living Quarters	61,825	13,990	75,815
54 Contingency	280,156	295,492	575,647
<b>TOTAL INTANGIBLES &gt;</b>	<b>3,081,711</b>	<b>3,250,407</b>	<b>6,332,117</b>

TANGIBLE COSTS	DRILLING COSTS	COMPLETION COSTS	TOTAL COSTS
41 Surface Casing	\$ 26,375	\$	\$ 26,375
42 Intermediate Casing	81,000		81,000
43 Drilling Liner	-		-
44 Production Casing	336,875		336,875
45 Production Liner	80,000		80,000
46 Tubing	-	50,000	50,000
47 Wellhead	100,000	32,500	132,500
48 Packers, Liner Hangers	-	69,400	69,400
49 Tanks	-	60,000	60,000
50 Production Vessels	-	40,000	40,000
51 Flow Lines	-		-
52 Rod string	-	39,600	39,600
53 Artificial Lift Equipment	-	110,000	110,000
54 Compressor	-		-
55 Installation Costs	-	190,000	190,000
56 Surface Pumps	-		-
58 Non-controllable Surface	-	116,000	116,000
59 Non-controllable Downhole	-	2,000	2,000
61 Downhole Pumps	-	15,100	15,100
63 Instrumentation & Metering	-	30,000	30,000
<b>TOTAL TANGIBLES &gt;</b>	<b>624,250</b>	<b>754,600</b>	<b>1,378,850</b>
<b>TOTAL COSTS &gt;</b>	<b>3,705,961</b>	<b>4,005,007</b>	<b>7,710,967</b>

**PREPARED BY MATADOR PRODUCTION COMPANY:**

Chief Engineer _____ Date: _____ <small>MGE</small>	Sr. Drilling Eng. <u>AMB</u> Date: <u>8/1/13</u> <small>AMB</small>
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**MATADOR RESOURCES COMPANY APPROVAL:**

Executive VP, CFO _____ Date: _____ <small>DEL</small>	Executive Director of Exploration: _____ Date: _____ <small>DFN</small>
Executive VP - Operations _____ Date: _____ <small>MPI</small>	Vice President - Res. Engineering _____ Date: _____ <small>BMR</small>
	Vice President & General Manager _____ Date: _____ <small>RCL</small>

**NON OPERATING PARTNER APPROVAL:**

Company Name: _____	Tax ID: _____
Approval: <input type="checkbox"/> Yes <input type="checkbox"/> No (mark one)	<small>This AFE is an estimate only. By signing this AFE, you agree to pay your share of the total actual costs.</small>
Working Interest (%): _____	Signed by: _____ Date: _____
	Title: _____