

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

RECEIVED OGD  
2015 AUG 28 P 3: 21

APPLICATION OF MATADOR PRODUCTION  
COMPANY FOR A NON-STANDARD SPACING  
AND PRORATION UNIT AND COMPULSORY  
POOLING, LEA COUNTY, NEW MEXICO.

Case No. 15363

MOTION FOR CONTINUANCE

Jalapeno Corporation and Yates Energy Corporation ("Jalapeno") by and through counsel the Gallegos Law Firm, P.C., requests that the Division enter its order continuing the hearing on the application in this case currently scheduled for September 3, 2015 on the merits, and use the September 3 hearing date to consider Jalapeno's Motion to Dismiss. As grounds for this Motion, Jalapeno states as follows:

1. This case was filed by applicant Matador Production Company on July 21, 2015. Matador seeks approval of a non-standard oil spacing unit in the Wolfcamp formation comprised of four separate 40 acre spacing units in the W/2 W/2 of Section 31, T-18-S, R-35-E, Lea County, New Mexico. Matador seeks to pool all mineral interest owners in order to drill the Airstrip 31 18 35 RN State Com. Well No. 201H ("Airstrip 201H") to "a depth sufficient to test the Wolfcamp formation." Jalapeno owns working interests affected by the compulsory pooling application.

2. By letter dated September 18, 2014, Jalapeno received a proposal from HEYCO to participate in the drilling of the Airstrip 31 State Com #2H to test the Bone Spring 3<sup>rd</sup> Sand. The well was to be drilled in the same location, supported by the same spacing units in the W/2 W/2 of Section 31, T-18-S, R-35-E, Lea County, New Mexico as Matador's Airstrip 201H well at issue in this proceeding.

3. The AFE for the proposed HEYCO well was \$7,317,030. Jalapeno approved that AFE and agreed to voluntarily participate. A copy of the September 18 letter with Jalapeno's approval and the AFE is attached as Exhibit A.

4. Following a merger between HEYCO and MRC Delaware Resources, LLC (Matador) the HEYCO proposal was withdrawn. Jalapeno received a proposal from MRC for the Wolfcamp well at issue in this proceeding by letter dated March 24, 2015. The AFE for the Airstrip 201H Wolfcamp well, at the same location as the proposed Bone Spring well, was \$9,099,800. A copy is attached as Exhibit B.

5. Jalapeno has objected to the AFE for the Matador well. Matador has never explained the reason for the difference in anticipated costs between the proposed HEYCO well and Matador's proposed Airstrip 201H well, which is only 200 feet deeper than the proposed HEYCO well. Matador has failed to provide a current AFE. Service costs for drilling wells in the Permian Basin have significantly decreased over the past year in response to the drop in the price of oil.

6. Jalapeno requested that Matador voluntarily produce important data and documents in this proceeding, and ultimately served a subpoena to obtain the evidence. On August 27, 2015, Matador responded to the subpoena. It refused to provide the subpoenaed documents with minor exceptions. Matador stated in its Response that "Matador will also provide an updated authorization for expenditure after a pooling order is issued." The Response thus concedes that Matador has still not provided Jalapeno with an operative AFE for the proposed Airstrip 201H well.

7. An applicant in a forced pooling proceeding must demonstrate that it has made a good faith effort to achieve voluntary participation from other interest owners.

To that end, Rule 19.15.4.12(A)(1)(b) requires a compulsory pooling applicant to provide a copy of the AFE the applicant will submit to the well's interest owners if appointed operator.

8. Matador has failed to comply with 19.15.4.12(A)(1)(b). Moreover, Matador cannot demonstrate good faith efforts to achieve voluntary participation where it has not identified the true costs for the proposed Airstrip 201H well. Jalapeno cannot make an informed decision as to whether it will or will not participate in the proposed Airstrip 201H well until it knows exactly what well costs Matador is proposing. Having previously approved the HEYCO proposal, Jalapeno has established its willingness to voluntarily participate in economic well proposals.

9. Jalapeno is filing simultaneously a Motion to Dismiss challenging the Division's authority to force pool in this proceeding because the Legislature has not authorized the Division or the Commission to pool "project areas" linking and crossing multiple, standard spacing units. If the motion is granted, the Division will not need to consider the proposed forced pooling application.

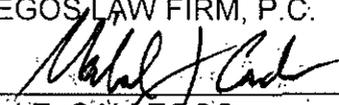
10. It is critical to Jalapeno's case to present the testimony of its petroleum engineer consultant, Mike Stewart. Mr. Stewart cannot be available on September 3, 2015. His wife is having hip replacement surgery in Dallas on August 31, 2015. She will likely be release from the hospital on the following Wednesday or Thursday and upon her release Mr. Stewart must travel with her to their home. Mr. Stewart is a petroleum engineer who has previously testified before the Division. He will offer testimony on Matador's proposed well costs, the positive results of other horizontal wells in the area, and other issues concerning the merits of Matador's application.

WHEREFORE, Jalapeno requests that the Division vacate the September 3, 2015 hearing on Matador's application on the merits. Jalapeno requests that the Division utilize the September 3 hearing date to consider and rule on Jalapeno's Motion to Dismiss. If necessary, the Division should reschedule any hearing on the merits after Matador has submitted an operative AFE, at a time that allows adequate preparation and investigation and that is mutually convenient to all parties.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.

By

  
\_\_\_\_\_  
J.E. GALLEGOS  
MICHAEL J. CONDON

460 St. Michael's Drive, Bldg. 300  
Santa Fe, New Mexico 87505  
(505) 983-6686

*Attorneys for Jalapeno Corporation and Yates  
Energy Corporation*

**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 28<sup>th</sup> day of August, 2015.

James Bruce  
P.O. Box 1056  
Santa Fe, NM 87504  
[jamesbruc@aol.com](mailto:jamesbruc@aol.com)

  
\_\_\_\_\_  
J.E. Gallegos



# HARVEY E. YATES COMPANY

A MEMBER COMPANY OF HEYCO ENERGY GROUP

SEP 21 2014  
BY: \_\_\_\_\_

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 3<sup>rd</sup> 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).

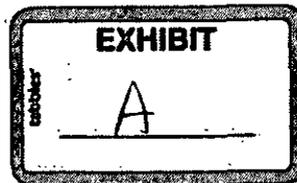
A Joint Operating Agreement is enclosed for your review and execution. If you wish to participate in the captioned well please return a signed AFE with the executed pages to the JOA to my attention. Also attached to this proposal is a spreadsheet that outlines the legal description of the contract area 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  
Laidman

CSB  
Enclosures  
Airstrip FedCom21IProposalLr.doc/Land/SE Airstrip



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

Sherriff, 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
Jalapeño 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 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	Total Vertical Depth
Supplemental Estimate <input type="checkbox"/>				

**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 operator's 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 drilling 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

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



Authority For Expenditure  
Harvey E. Yates Company

Date:	7/15/2014
Prepared By:	Jim Ward
Prospect Name:	Airstrip Bona 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
Field:	BHL Sec 31, T 18S, R35E, 330' FNL & 710' FWL
Primary Objectives:	Airstrip; Bone Spring 3ri 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.

Intan. Drilling Costs BCP	COSTS
951-000 Abandonment & Cleanup	\$ 30,000
920-009 Abstracts & Title Opinions	\$ 15,000
920-009 Well Control Insurance 15,185' S/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 S/Day: 19500	\$ 448,500
921-003 Mobilization / Demobilization	\$ 100,000
921-003 Rig Fuel Days: 23 S/Day: 4500	\$ 103,500
921-002 IDC Footage S/ft:	\$
922-001 Supervision Days: 23 S/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 S/Day: 2500	\$ 37,500
922-000 Directional Drilling Expense	\$ 150,000
921-008 Inspection - Drill String	\$ 10,000
921-008 Well Control & Testing	\$ 6,000
921-008 Miscellaneous IDC	\$ 25,000
921-005 Mud Logging Days: 19 S/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 Discosal	\$ 25,000
Contingency (10%)	\$ 179,315
<b>TOTAL</b>	<b>\$ 1,972,460</b>

Intan. 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
<b>TOTAL</b>	<b>\$ 49,500</b>

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

<b>TOTAL DRILLING</b>	<b>\$ 2,278,480</b>
<b>TOTAL INTANGIBLE</b>	<b>\$ 6,306,735</b>

Intan. Comp. Costs ACP	COSTS
951-000 Abandonment & Cleanup	\$ (30,000)
921-003 Daywork Days: 5 S/Day: 19500	\$ 97,500
921-003 Rig Fuel Days: 5 S/Day: 4500	\$ 22,500
924-008 Drilling Rig Supervision Days: 5 S/Day: 1850	\$ 9,250
924-004 Production Casing Crews	\$ 25,000
924-004 Production Casing Cement & Services	\$ 76,000
924-004 Prod. Float Equipment & Centralizers	\$ 12,000
924-001 Completion / Swab Unit Days: 10 S/Day: 4500	\$ 45,000
924-005 Compl. Rig Supervision Days: 10 S/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
924-006 Nitrogen Service & Coiled Tubing	\$ 180,000
924-006 Fishing	\$
924-007 Stimulation	\$ 2,500,000
924-007 Transportation	\$ 14,000
924-009 Contract Labor & Reoustabout	\$ 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 S/Day: 350	\$ 3,500
Contingency (10%)	\$ 389,525
<b>TOTAL</b>	<b>\$ 4,284,775</b>

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

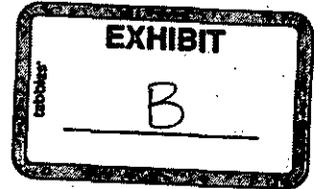
Tangible Lease & Battery Equipment ACP	COSTS
940-001 Pumping Units & Engines	\$
940-002 Emission Controls	\$
940-002 Heaters, Treaters & Separators	\$ 35,000
940-005 Tanks & Accessory Equipment	\$ 150,000
941-001 Pipeline	\$ 45,000
941-001 Facility Electrical & Automation	\$ 25,000
941-001 Overhead Electricity	\$ 12,500
941-001 Misc. Non-Controllable Equipment	\$ 25,000
Contingency (10%)	\$ 29,250
<b>TOTAL EQUIPMENT</b>	<b>\$ 324,750</b>

<b>TOTAL COMPLETION</b>	<b>\$ 6,038,550</b>
<b>TOTAL TANGIBLE</b>	<b>\$ 1,010,295</b>

<b>TOTAL DRY HOLE COST</b>	<b>\$ 2,420,655</b>
<b>TOTAL WELL COST</b>	<b>\$ 7,317,000</b>

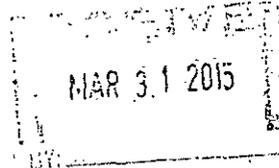
# MRC Delaware Resources, LLC

.500 North Main Street, Suite One, Roswell, New Mexico 88201  
Mailing Address: P.O. Box 1936, Roswell, New Mexico 88202-1936  
Voice 575-623-6601 • Fax 575-627-2427  
Sender's e-mail: [mrandle@matadorresources.com](mailto:mrandle@matadorresources.com)



Melissa Randle  
Land Manager

March 24, 2015



VIA CERTIFIED MAIL 7012 2920 0002 3253 7414

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

Re: Well Proposal  
Matador Airstrip State Com 31-18S-35E #201H (formerly Airstrip 31 State #2H)  
Section 31-18S-35E  
Lea County, New Mexico

Dear Jalapeno Corporation:

Reference is made to that certain well proposal letter dated September 14, 2014, sent by Harvey E. Yates Company ("HEYCO") proposing to drill the Airstrip 31 State #2H well referenced above to test the Third Bone Springs formation at a horizontal location in the W/2 W/2 of the subject section. On Friday, February 27, 2015, HEYCO closed on and merged its assets in New Mexico with Matador Resources Company and MRC Delaware Resources, LLC ("MRC Delaware") is the new successor entity with Matador Production Company being the operating company entity for MRC Delaware.

MRC Delaware desires to drill the subject well above to a depth that is approximately 200' deeper than originally proposed in order to test the Wolfcamp formation at a surface location approximately 150' FSL and 330' FWL of Section 31, Township 18 South, Range 35 East, and a bottom hole location of approximately 330' FNL and 710' FWL of Section 31, Township 18 South, Range 35 East, Lea County, New Mexico. We intend to drill horizontally (~10,840' TVD) to a Total Measured Depth of approximately 15,500' resulting in a lateral wellbore of approximately 4,400' that is planned to be completed with 15 frac stages. Estimated costs to drill the test well are \$5,376,594 for a dry hole with a completed well costing approximately \$9,099,800 as shown on the enclosed AFE.

Please indicate your election for this proposed operation by executing this letter below, as well as the enclosed AFE, if participating, and return both to the attention of the undersigned. Please be aware that the enclosed AFE is only an estimate of costs to be incurred and in electing to participate in the proposed well, you will be responsible for your proportionate share of all actual costs incurred. If your election is to participate, please accept this letter as an invoice notice and request for payment and to please remit payment for your proportionate share of costs pursuant to Article VII.C of the above referenced operating agreement as detailed in the enclosed AFE to Matador Production

March 24, 2015  
Jalapeño Corporation  
Page 2

Company on or before fifteen (15) days after receipt of this estimate and invoice is received.

I have enclosed a revised Operating Agreement to the previous agreement sent under the September 14, 2014 proposal letter for your review and execution. We have corrected the operator name, well depth, contract depth, Exhibit "A", header names, etc. to reflect the proposed well herein. Please return one (1) executed copy of the signature page to the Operating Agreement along with your election letter and AFE.

As an alternative to participation, MRC Delaware hereby proposes the following options covering your 5.097063% Working Interest in this proposed unit:

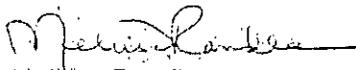
- 1) Assign all your interest to MRC Delaware for \$1800.00 per net acre for delivering of your existing Net Revenue Interest, less and except your interest in any existing producing wellbore(s) located in the SE Airstrip Com #1 Unit.
- 2) Assign all of your interest to MRC Delaware delivering a 75.0% Net Revenue Interest, reserving an Overriding Royalty Interest equal to the positive difference between existing burdens and 25.0%, proportionately reduced. Any assignment would cover all rights less and except any rights in and to any existing producing wellbore(s) located in the SE Airstrip Com #1 Unit.

As an alternative to the above options, MRC Delaware would be interested in purchasing your interest in this unit/section including any producing well bores, subject to the negotiation of mutually agreeable price and terms. If you are interested in pursuing this alternative, please so indicate at the space provided below and/or contact the undersigned. We will immediately forward this information to our Acquisitions and Divestitures Department for follow-up. However, you are advised that entering into negotiations to sell your interest does not excuse or allow you to delay your required election under this well proposal.

Your earliest attention and response to this proposal will be greatly appreciated. With this recent merger, there is an opportunity to move this well onto our rig schedule and spud this proposed well around April 25, 2015, provided we can gather the elections and signatures needed ahead of spudding the well. Should you have any questions regarding this proposal, please contact me at any time using the contact information above.

Sincerely,

**MRC DELAWARE RESOURCES, LLC**

  
Melissa Randle  
Land Manager

Enclosures

Please elect one (1) of the following and return to sender:

\_\_\_\_\_ Jalapeno Corporation hereby elects to participate for its proportionate share of the costs detailed in the enclosed AFE for the Airstrip State Com 31-18S-35E #201H Well, located in Lea County, New Mexico.

\_\_\_\_\_ Please find enclosed our proportionate share of well costs pursuant to the cash call provision under the governing operating agreement referenced hereinabove.

\_\_\_\_\_ Jalapeno Corporation hereby elects not to participate for its proportionate share of the costs detailed in the enclosed AFE for the Airstrip State Com 31-18S-35E #201H Well, located in Lea County, New Mexico.

\_\_\_\_\_ Jalapeno Corporation hereby elects to assign our interest for \$1,800/acre for delivery of my existing Net Revenue Interest, less and except your interest in any existing producing wellbore(s) located in the SE Airstrip Com #1 Unit. Please provide assignment form for review and acceptance.

\_\_\_\_\_ Jalapeno Corporation hereby elects to assign all of our interest to MRC Delaware delivering a 75.0% Net Revenue Interest, reserving an Overriding Royalty Interest equal to the positive difference between existing burdens and 25.0%, proportionately reduced. Any assignment would cover all rights less and except any rights in and to any existing producing wellbore(s) located in the SE Airstrip Com #1 Unit. Please provide assignment form for review and acceptance.

Jalapeno Corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_ I / We are interested in selling our interest in this unit, please contact us to discuss.

# MATADOR PRODUCTION COMPANY

ONE LINCOLN CENTRE - 5400 LEJ FREEWAY - SUITE 1500 - DALLAS, TEXAS 75240  
Phone (972) 371-5200 • Fax (972) 371-5201

## ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	March 18, 2015	AFE NO.:	0
WELL NAME:	Airsting State Com 31-180-35E #20111	FIELD:	0
LOCATION:		MOFVD:	15500710B40
COUNTY/STATE:	Lea / NM	LATERAL LENGTH:	4,400
MRC W:	52.37%	DRILLING DAYS:	38
GEOLOGIC TARGET:	Wolfcamp A "XY"	COMPLETION DAYS:	10
REMARKS:	Drill a horizontal well and complete with 15 stages, Gen 2 Upper Wolfcamp Design		

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
<b>INTANGIBLE COSTS</b>				
01 Land / Leasing / Regulatory	\$ 95,000			\$ 95,000
02 Location, Surveys & Damages	180,500	137,500	4,000	322,000
10 Drilling	1,342,000			1,342,000
18 Cementing & Floor Equip	250,000			250,000
20 Logging / Formation Evaluation		6,000		6,000
21 Mud Logging	28,500			28,500
23 Mud Circulation System	112,850			112,850
24 Mud & Chemicals	301,800	30,000		331,800
25 Mud / Wastewater Disposal	125,000			125,000
26 Freight / Transportation	36,000	15,000		51,000
28 Rig Supervision / Engineering	154,000	62,000	10,000	226,000
31 Drill Bits	105,450			105,450
32 Fuel & Power	100,000			100,000
33 Water	52,000	395,000		447,000
34 Drig & Completion Overhead	21,000	17,000		38,000
36 Plugging & Abandonment				
38 Directional Drilling, Surveys	350,000			350,000
40 Completion Unit, Swab, CTU		90,000	20,000	110,000
44 Perforating, Wireline, Slickline		76,000	20,000	96,000
45 High Pressure Pump Truck		48,000		48,000
46 Stimulation		1,650,000		1,650,000
47 Stimulation Flowback & Disposal		68,000		68,000
48 Insurance	27,100			27,100
50 Labor	150,500	19,500	6,000	176,000
51 Rental - Surface Equipment	161,500	239,250	12,000	392,750
52 Rental - Downhole Equipment	99,000	43,000		142,000
53 Rental - Living Quarters	87,930	28,210	10,000	126,140
54 Contingency	390,771	299,446	9,800	690,017
<b>TOTAL INTANGIBLES &gt;</b>	<b>4,298,481</b>	<b>3,183,906</b>	<b>107,800</b>	<b>7,590,187</b>

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	TOTAL COSTS
<b>TANGIBLE COSTS</b>				
41 Surface Casing	\$ 52,088			\$ 52,088
42 Intermediate Casing	161,800			161,800
43 Drilling Liner	355,600			355,600
44 Production Casing	428,625			428,625
45 Production Liner				
46 Tubing			55,000	55,000
47 Wellhead	60,000		60,000	120,000
48 Packers, Liner Hangers		35,000	12,000	47,000
49 Tanks				
50 Production Vessels			74,000	74,000
51 Flow Lines				
52 Rod string				
53 Artificial Lift Equipment			30,000	30,000
54 Compressor				
55 Installation Costs			82,000	82,000
56 Surface Pumps			5,000	5,000
58 Non-controllable Surface			65,000	65,000
59 Non-controllable Downhole				
61 Downhole Pumps				
63 Measurement & Meter Installation			12,500	12,500
64 Gas Conditioning / Dehydration				
65 Interconnecting Facility Piping				
66 Gathering / Bulk Lines				
67 Valves, Dumps, Controllers				
68 Tank / Facility Containment				
69 Flare Stack				
70 Electrical / Grounding				
71 Communications / SCADA				
72 Instrumentation / Safety				
<b>TOTAL TANGIBLES &gt;</b>	<b>1,078,113</b>	<b>35,000</b>	<b>396,500</b>	<b>1,509,613</b>
<b>TOTAL COSTS &gt;</b>	<b>5,376,594</b>	<b>3,218,906</b>	<b>504,300</b>	<b>9,099,800</b>

**PREPARED BY MATADOR PRODUCTION COMPANY:**

Drilling Engineer:	Alan Byre	Team Lead - WTX/NM:	<i>[Signature]</i>
Completions Engineer:	Cris Calvert		
Production Engineer:	Casey McGinn		

**MATADOR RESOURCES COMPANY APPROVAL:**

Executive VP, COO/CFO	DCL	VP - Res Engineering	DWF	VP - Drilling	BS
Executive VP, Legal	GA	Exec Dir - Exploration	JPH	VP - Production	WJK
President	MBH	VP & General Manager	RL		

**NON OPERATING PARTNER APPROVAL:**

Company Name:	_____	Working Interest (%):	_____	Tax ID:	_____
Signed by:	_____	Date:	_____		
Title:	_____	Approval:	Yes _____ No (mark one)		