

# MRC Delaware Resources, LLC

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**Jeff Lierly, CPL**  
**Senior Landman**

March 31, 2016

VIA CERTIFIED RETURN RECEIPT MAIL

Working Interest Owners See Exhibit "A"

Re: Mallon 27 Fed Com 2H Updated AFE  
W/2E/2 of Section 27, W/2SE/4 of Section 22, Township 19 South, Range 34 East  
Lea County, New Mexico

Dear Working Interest Owner:

As you are aware, MRC Delaware Resources, LLC and its operating company Matador Production Company (collectively "MRC") previously proposed the drilling of the Mallon 27 Fed Com 2H (the "Well"), located in the W/2E/2 of Section 27 and W/2SE/4 of Section 22, Township 19 South, Range 34 East, Lea County, New Mexico, to test the Bone Spring formation. The updated estimated cost of drilling, testing, completing, and equipping the Well is \$7,719,407.00, as itemized on the enclosed Authority for Expenditure ("AFE") dated March 31, 2016.

The Well will be drilled to a total vertical depth of 10,800' and a total measured depth of 18,250', producing a treatable lateral of approximately 7,273' within the Bone Spring formation to be completed with 18 stages.

MRC proposed drilling the Well under the terms of the modified 1989 AAPL form of Operating Agreement ("OA") which was previously furnished for your review and approval. The Operating Agreement will cover the W/2SE/4 of Section 22 and the W/2E/2 of Section 27, Township 19 South, Range 34 East, Lea County, New Mexico limited to the Bone Spring formation ("Contract Area") pursuant to the following terms:

- 100/300/300% Non-consent penalty
- \$7,000/\$700 Drilling and Producing overhead rate

If you haven't done so yet, MRC requests that you indicate your election to participate in the drilling and completion of the Well in the space provided below, sign and return one (1) copy of this letter along with your geological well requirements, the AFE, the OA and four (4) copies of the Communitization Agreement for the Well to the undersigned at your earliest convenience. Please be advised that MRC has filed for compulsory pooling for the April 14, 2016 docket in an effort to ensure all required documents are obtained from all working interest owners in a timely fashion.

**BEFORE THE OIL CONVERSATION  
DIVISION**  
Santa Fe, New Mexico  
Exhibit No. 12  
Submitted by: **Matador Production Co.**

Exhibit "A" to the Mallon 27 Fed Com 2H Updated AFE

List of working interest owners and certified tracking #s

Alyce Kay Garrett	70151730000195299458
Alice Fay Sparks	70151730000195299465
Chevron U.S.A. Inc.	70151730000195299472
MRC Explorers Resources, LLC	Hand delivery
Global Nevada- Galaxy, Inc.	70151730000195299441
Harle, Inc.	70151730000195299434
HWC Investments, Ltd.	70151730000195299427
HWC Investments, Ltd.	70151730000195299557
Keith McKamey	70151730000195299564
Magnum Hunter Production, Inc., c/o Cimarex	70151730000195299571
Nadel and Gussman Capitan, LLC	70151730000195299588
Peggy Runyan	70151730000195299595
Pro-Kem, Inc.	70151730000195299601
MRC Spiral Resources, Inc.	Hand delivery
The Allar Company	70151730000195299618
The Mary E. Ashton Family Trust	70151730000195299625
Vicky Moser	70151730000195299632
Vicky Moser	70151730000195299649
Vicky Moser	70151730000195299656
Barbara C. Wilson	70151730000195299663

If your election is to participate in the drilling and completion of the Well, please sign and return a copy of the enclosed AFE at your earliest convenience. Please be aware that the enclosed AFE is only an estimate of costs to be incurred and by electing to participate in the Well, each working interest owner shall be responsible for its proportionate share of all costs incurred.

Please contact me if you have any questions.

Sincerely,



Jeff Lierly, CPL

Enclosures

Please elect one of the following and return to sender.

\_\_\_\_\_ I/We hereby elect(s) to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Mallon 27 Fed Com 2H.

\_\_\_\_\_ I/We hereby elect(s) not to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Mallon 27 Fed Com 2H.

\_\_\_\_\_ I / We are interested in selling our interest in the Contract Area, please contact us to discuss.

Working Interest Owner: \_\_\_\_\_

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

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

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

**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:	March 31, 2016	AFE NO.:	0
WELL NAME:	Mallon 27 Fed Corn 2H	FIELD:	Bone Spring
LOCATION:	W/2E/2 Sec. 27, W/2SE/4 Sec. 22, T19S-R34E	MD/TVD:	18250'/10800'
COUNTY/STATE:	Lea	LATERAL LENGTH:	7,267
MRC W#:			
GEOLOGIC TARGET:	3rd Bone Spring		
REMARKS:	Drill and complete a horizontal 3rd Bone Spring well with 18 stages		

	DRILLING COSTS	COMPLETION COSTS	PRODUCTION COSTS	FACILITY COSTS	TOTAL COSTS
<b>INTANGIBLE COSTS</b>					
Land / Legal / Regulatory	\$ 76,700				\$ 76,700
Location, Surveys & Damages	160,500	13,000	5,000	72,500	251,000
Drilling	627,000				627,000
Cementing & Float Equip	170,000				170,000
Logging / Formation Evaluation		6,500			6,500
Mud Logging	20,500				20,500
Mud Circulation System	64,360				64,360
Mud & Chemicals	77,400	24,000			101,400
Mud / Wastewater Disposal	170,000				170,000
Freight / Transportation	18,000	12,000			30,000
Rig Supervision / Engineering	84,000	51,200	2,400	30,000	167,600
Drill Bits	105,000				105,000
Fuel & Power	70,000				70,000
Water	62,500	514,000			566,500
Drig & Completion Overhead	14,000	11,000			25,000
Plugging & Abandonment					
Directional Drilling, Surveys	230,000				230,000
Completion Unit, Swab, CTU		76,000	12,000		88,000
Perforating, Wireline, Slickline		60,800			60,800
High Pressure Pump Truck		56,000	10,500		66,500
Stimulation		2,250,000			2,250,000
Stimulation Flowback & Disp		80,000	4,500		84,500
Insurance	32,850				32,850
Labor	119,500	19,500	8,000		147,000
Rental - Surface Equipment	76,200	132,250	450	6,000	214,900
Rental - Downhole Equipment	56,000	39,000			95,000
Rental - Living Quarters	57,980	22,130	150	1,000	81,260
Contingency	228,249	336,736	2,800	10,950	578,537
<b>TOTAL INTANGIBLES &gt;</b>	<b>2,510,739</b>	<b>3,704,118</b>	<b>43,600</b>	<b>120,450</b>	<b>6,378,907</b>
<b>TANGIBLE COSTS</b>					
Surface Casing	\$ 56,750				\$ 56,750
Intermediate Casing	140,750				140,750
Drilling Liner					
Production Casing	373,000				373,000
Production Liner					
Tubing			50,000		50,000
Wellhead	41,000		40,000		81,000
Packers, Liner Hangers		36,000			36,000
Tanks				90,000	90,000
Production Vessels			40,000	45,000	85,000
Flow Lines			40,000		40,000
Rod string					
Artificial Lift Equipment			53,000		53,000
Compressor					
Installation Costs			30,000	90,000	120,000
Surface Pumps			5,000		5,000
Non-controllable Surface				60,000	60,000
Non-controllable Downhole					
Downhole Pumps					
Measurement & Meter Installation			65,500	19,000	84,500
Gas Conditioning / Dehydration					
Interconnecting Facility Piping					
Gathering / Bulk Lines				40,000	40,000
Valves, Dumps, Controllers					
Tank / Facility Containment				30,000	30,000
Flare Stack				20,000	20,000
Electrical / Grounding			7,500	10,000	17,500
Communications / SCADA					
Instrumentation / Safety			10,000	25,000	35,000
<b>TOTAL TANGIBLES &gt;</b>	<b>611,500</b>	<b>36,000</b>	<b>341,000</b>	<b>429,000</b>	<b>1,417,500</b>
<b>TOTAL COSTS &gt;</b>	<b>3,122,239</b>	<b>3,740,118</b>	<b>384,600</b>	<b>549,450</b>	<b>7,796,407</b>

**PREPARED BY MATADOR PRODUCTION COMPANY:**

Drilling Engineer:	Patrick Walsh	Team Lead - WTXNM	<i>[Signature]</i>
Completions Engineer:	Ben Peterson		0
Production Engineer:	Trent Goodwin		

**MATADOR RESOURCES COMPANY APPROVAL:**

Executive VP, COO/CFO	DEL	VP - Res Engineering	<i>[Signature]</i>	VP - Drilling	BC
Executive VP, Legal	CA	Exec Dir - Exploration	NLF	VP - Production	TWG
President	MVH	VP & General Manager	RCL		

**NON OPERATING PARTNER APPROVAL:**

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

The costs on this AFE are estimates only, and may not be concerned as a charge on any specific item or the total cost of the project. Taking matters approved under the AFE may be delayed up to a year after the well has been completed. In executing this AFE, the Participants agree to pay in proportion their share of actual costs incurred including legal, seismic, regulatory, engineering and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well. Participants shall be treated by and held responsible for Operator's well cost and general liability insurance unless participant provides Operator a certificate of insurance in an amount acceptable to the Operator by the date of this AFE.