

## MRC Permian Company

One Lincoln Centre • 5400 LBJ Freeway • Suite 1500 • Dallas, Texas 75240

Voice 972.371.5430 • Fax 972-371-5201

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

**Chris Carleton**  
**Landman**

November 12, 2014

**VIA CERTIFIED RETURN RECEIPT MAIL**

Chevron USA Inc.  
1600 Smith Street  
Houston, TX 77002

Re: Matador Production Company – Hibiscus 08-19S-35E RN #124H  
Participation Proposal  
Section 08, Township 19-South, Range 35-East  
Lea County, New Mexico

Chevron USA Inc.:

MRC Permian Company ("MRC") proposes the drilling of the Matador Production Company's Hibiscus 08-19S-35E RN #124H Well, located in Section 08, Township 19-South, Range 35-East, Lea County, New Mexico, to the Bone Spring formation.

MRC is requesting that you indicate below your election of whether to participate in the drilling and completion of this proposed well as set out herein. Please indicate your election in the space provided below, sign, and return one (1) copy of this letter to the undersigned.

In connection with the above, please note the following:

1. The estimated cost of drilling, testing, completing, and equipping the subject well is \$8,570,292 as itemized on the enclosed Authority for Expenditure ("AFE") dated November 6, 2014.
2. The proposed surface location of the subject well is approximately 200' FSL and 350' FEL of Section 05, Township 19-South, Range 35-East, Lea County, New Mexico. The proposed point of penetration of the subject well is approximately 330' FNL and 350' FEL of Section 08, Township 19-South, Range 35-East, Lea County, New Mexico. The proposed bottomhole location of the subject well is 260' FSL and 350' FEL; see the enclosed plat for more detail.

3. In this well, there is a targeted interval within the Bone Spring formation. We will drill horizontally in the Second Bone Spring (~9,960' TVD) to a Total Measured Depth of approximately 14,560' resulting in a productive lateral of approximately 4,600' that will require 18 frac stages to be completed.
4. Chevron USA Inc. will own an approximate 25% working interest in the proposed well, subject to title verification.

If your election is to participate in the drilling and completion of the proposed well, please sign and return a copy of the enclosed AFE within 30 days of receipt of this notice. 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, Chevron USA Inc. shall be responsible for 25% of all costs incurred.

Sincerely,

MRC PERMIAN COMPANY



Chris Carleton

Enclosure(s)

Please elect one of the following and return to sender:

       Chevron USA Inc. hereby elects to participate for its proportionate share of the costs detailed in the enclosed AFE associated with the Matador Production Company Hibiscus 08-19S-35E RN #124H Well, located in Lea County, New Mexico.

       Chevron USA Inc. hereby elects not to participate for its proportionate share of the costs detailed in the enclosed AFE for the Matador Production Company Hibiscus 08-19S-35E RN #124H Well, located in Lea County, New Mexico.

Chevron USA Inc.

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

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

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

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 Road, Aztec, NM 87410  
Phone: (505) 334-6178 Fax: (505) 334-6170  
District IV  
1220 S. St. Francis Dr., Santa Fe, NM 87505  
Phone: (505) 476-3460 Fax: (505) 476-3462

State of New Mexico  
Energy, Minerals & Natural Resources  
Department  
OIL CONSERVATION DIVISION  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

FORM C-102  
Revised August 1, 2011  
Submit one copy to appropriate  
District Office

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

|                            |  |                                    |
|----------------------------|--|------------------------------------|
| <sup>1</sup> API Number    | <sup>2</sup> Pool Code                                     | <sup>3</sup> Pool Name             |
| <sup>4</sup> Property Code | <sup>5</sup> Property Name<br>HIBISCUS STATE 08-19S-35E RN | <sup>6</sup> Well Number<br># 124H |
| <sup>7</sup> GRID No.      | <sup>8</sup> Operator Name<br>MATADOR PRODUCTION COMPANY   | <sup>9</sup> Elevation<br>XXXX'    |

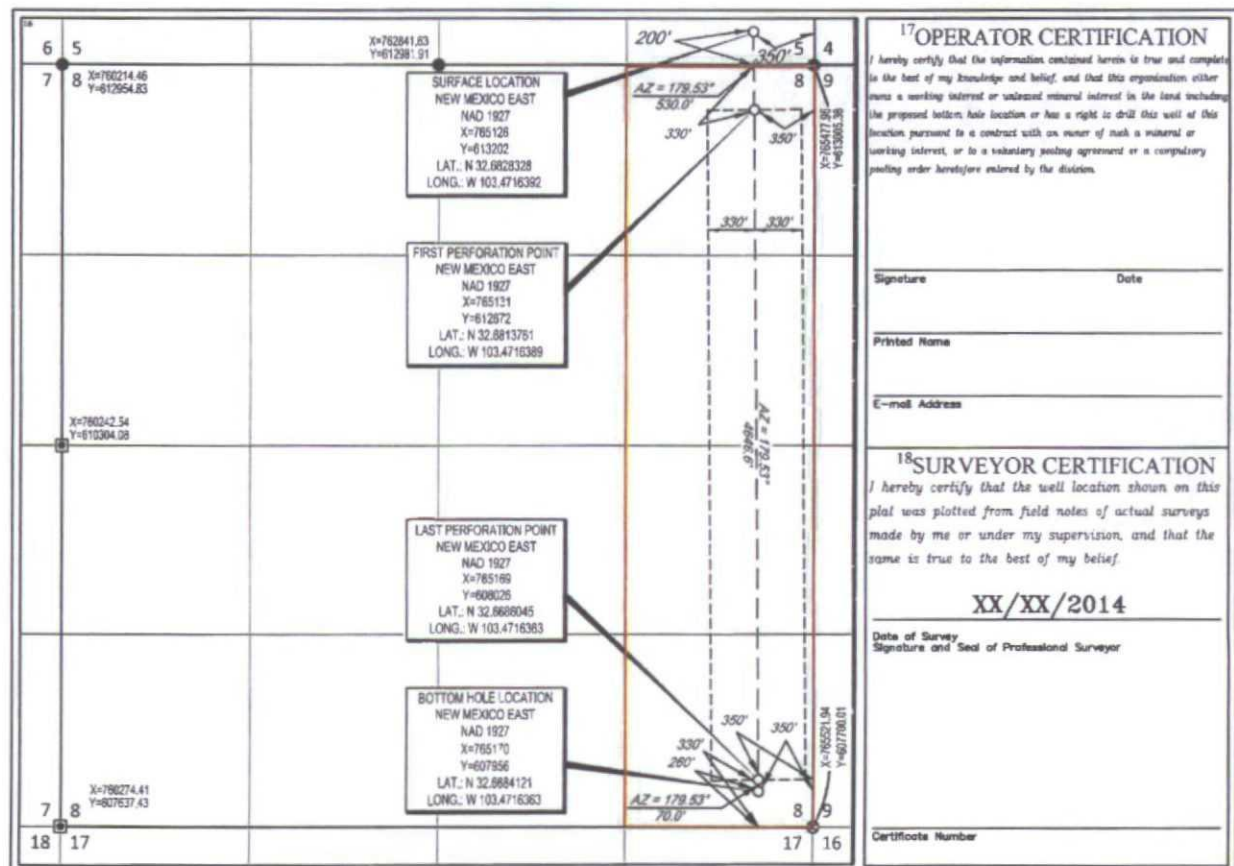
<sup>10</sup>Surface Location

| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| P             | 5       | 19-S     | 35-E  | -       | 200'          | SOUTH            | 350'          | EAST           | LEA    |

| UL or lot no. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| P             | 8       | 19-S     | 35-E  | -       | 260'          | SOUTH            | 350'          | EAST           | LEA    |

|                                      |                               |                                  |                         |
|--------------------------------------|-------------------------------|----------------------------------|-------------------------|
| <sup>11</sup> Dedicated Acres<br>160 | <sup>12</sup> Joint or Infill | <sup>13</sup> Consolidation Code | <sup>14</sup> Order No. |
|--------------------------------------|-------------------------------|----------------------------------|-------------------------|

No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.



Phone (972) 371-5200 • Fax (972) 371-5201

#### ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

|                  |   |                  |               |
|------------------|---|------------------|---------------|
| DATE:            | November 8, 2014  | AFE NO.:         | 300017-008-01 |
| WELL NAME:       | Hibiscus State 08-19S-35E RN #124H  | FIELD:           | Two Georges   |
| LOCATION:        |   | MD/TVD:          | 14580/9960'   |
| COUNTY/STATE:    | Lea   | LATERAL LENGTH:  | 4,600         |
| MRC WI:          | 75.00%  | DRILLING DAYS:   | 30            |
| GEOLOGIC TARGET: | 2nd Bone Spring   | COMPLETION DAYS: | 13            |
| REMARKS:         | Drill a horizontal well and complete with 18 stages. Gen 1 Bone Spring frac design. |                  |               |

| INTANGIBLE COSTS                    | DRILLING COSTS | COMPLETION COSTS | PRODUCTION COSTS | TOTAL COSTS |
|-------------------------------------|----------------|------------------|------------------|-------------|
| 01 Land / Legal / Regulatory        | \$ 36,700      | \$ -             | \$ -             | \$ 36,700   |
| 02 Location, Surveys & Damages      | 120,500        | 13,000           | 4,000            | 137,500     |
| 10 Drilling                         | 1,035,000      | -                | -                | 1,035,000   |
| 16 Cementing & Float Equip          | 200,000        | -                | -                | 200,000     |
| 20 Logging / Formation Evaluation   | -              | 6,500            | -                | 6,500       |
| 21 Mud Logging                      | 26,500         | -                | -                | 26,500      |
| 23 Mud Circulation System           | 47,000         | -                | -                | 47,000      |
| 24 Mud & Chemicals                  | 165,000        | 36,000           | -                | 201,000     |
| 25 Mud / Wastewater Disposal        | 155,000        | -                | -                | 155,000     |
| 26 Freight / Transportation         | 36,000         | 16,500           | -                | 52,500      |
| 28 Rig Supervision / Engineering    | 125,000        | 74,750           | 18,000           | 218,750     |
| 31 Drill Bits                       | 90,000         | -                | -                | 90,000      |
| 32 Fuel & Power                     | 210,000        | -                | -                | 210,000     |
| 33 Water                            | 20,000         | 463,000          | -                | 483,000     |
| 34 Drig & Completion Overhead       | 17,500         | 21,000           | -                | 38,500      |
| 38 Plugging & Abandonment           | -              | -                | -                | -           |
| 36 O/rectional Drilling, Surveys    | 205,000        | -                | -                | 205,000     |
| 40 Completion Unit, Swab, CTU       | -              | 170,000          | 28,000           | 198,000     |
| 44 Perforating, Wireline, Slickline | -              | 124,500          | 20,000           | 144,500     |
| 45 High Pressure Pump Truck         | -              | 60,000           | -                | 60,000      |
| 46 Stimulation                      | -              | 2,340,000        | -                | 2,340,000   |
| 47 Stimulation Flowback & Disp      | -              | 58,000           | -                | 58,000      |
| 48 Insurance                        | 26,640         | -                | -                | 26,640      |
| 60 Labor                            | 156,500        | 24,500           | 6,000            | 187,000     |
| 61 Rental - Surface Equipment       | 106,500        | 260,025          | 12,000           | 398,525     |
| 62 Rental - Downhole Equipment      | 20,000         | 63,000           | -                | 83,000      |
| 63 Rental - Living Quarters         | 71,750         | 36,730           | 2,000            | 110,480     |
| 64 Contingency                      | 287,159        | 378,751          | 9,000            | 674,910     |
| TOTAL INTANGIBLES >                 | 3,158,749      | 4,166,256        | 89,000           | 7,424,005   |

| TANGIBLE COSTS                      | DRILLING COSTS   | COMPLETION COSTS | PRODUCTION COSTS | TOTAL COSTS      |
|-------------------------------------|------------------|------------------|------------------|------------------|
| 41 Surface Casing                   | \$ 78,538        | \$ -             | \$ -             | \$ 78,538        |
| 42 Intermediate Casing              | 174,150          | -                | -                | 174,150          |
| 43 Drilling Liner                   | -                | -                | -                | -                |
| 44 Production Casing                | 354,400          | -                | -                | 354,400          |
| 45 Production Liner                 | -                | -                | -                | -                |
| 46 Tubing                           | -                | -                | 55,000           | 55,000           |
| 47 Wellhead                         | 85,000           | -                | 50,000           | 135,000          |
| 48 Packers, Liner Hangers           | -                | 69,700           | 20,000           | 89,700           |
| 49 Tanks                            | -                | -                | -                | -                |
| 50 Production Vessels               | -                | -                | 74,000           | 74,000           |
| 51 Flow Lines                       | -                | -                | -                | -                |
| 52 Rod string                       | -                | -                | -                | -                |
| 53 Artificial Lift Equipment        | -                | -                | 20,000           | 20,000           |
| 54 Compressor                       | -                | -                | -                | -                |
| 55 Installation Costs               | -                | -                | 82,000           | 82,000           |
| 56 Surface Pumps                    | -                | -                | 5,000            | 5,000            |
| 58 Non-controllable Surface         | -                | -                | 66,000           | 66,000           |
| 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>692,088</b>   | <b>\$9,700</b>   | <b>384,500</b>   | <b>1,146,288</b> |
| <b>TOTAL COSTS &gt;</b>             | <b>3,850,837</b> | <b>4,235,958</b> | <b>483,500</b>   | <b>8,570,292</b> |

PREPARED BY MATADOR PRODUCTION COMPANY:

Drilling Engineer: Aaron Byrd  
 Completions Engineer: Chris Calvert  
 Production Engineer: Casey McCann

Team Lead - WTX/NM \_\_\_\_\_  
 0

**MATADOR RESOURCES COMPANY APPROVAL:**

|                       |                        |                 |
|-----------------------|------------------------|-----------------|
| Executive VP, COO/CFO | VP - Res Engineering   | VP - Drilling   |
| DEL                   | BMR                    | BG              |
| Executive VP, Legal   | Exec Dir - Exploration | VP - Production |
| CA                    | DFN                    | WFM             |
| President             | VP & General Manager   |                 |
| MMVH                  | RCL                    |                 |

**NON OPERATING PARTNER APPROVAL:**

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

The marks on this APF are information only and may not be relevant to configuring an any specific item or the total cost of this project. Taking installation personnel under the APF may be subject to a year after the end has been completed. In receiving this APF, the Participant agrees to pay to participants of any and all insurance, including, but not limited, liability, theft and other within the terms of the applicable group spending agreement. Signature order or other agreement covering this end. Performance that is required by and third party participants by Operator's not limited and general liability insurance may perform participants' Operator's significant contribution to their responsibility to be mutually responsible to the Operator by the end of year.

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Chertron USA Inc.  
Attn: Larry R. Angle  
1400 Smith Street  
Houston, TX 77002

## COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

☐ Agent

Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes  
If YES, enter delivery address below: ☒ No

3. Service Type

☒ Certified Mail®☐ Priority Mail Express™☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ Collect on Delivery

4. Restricted Delivery? (Extra Fee)

☐ Yes

2. Article Number

(Transfer from service label)

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PS Form 3811, July 2013

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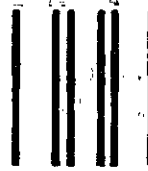
Chertron USA Inc. Larry R. Angle  
Street & Apt. No.  
or PO Box No. 1400 Smith Street  
City, State, ZIP+4 Houston, TX 77002

PS Form 3800, July 2014

See Reverse for Instructions

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| Total Postage & Fees                              | \$ |

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Sent To: *Chevron USA Inc. Larry R. Angle*  
Street & Apt. No. or PO Box No.: *1400 Smith Street*  
City, State, ZIP+4: *Houston TX 77002*

PS Form 3800, July 2014

See Reverse for Instructions

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