

# MRC Delaware Resources, LLC

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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

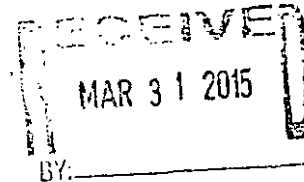
Re: Well Proposal  
Matador: Airstrip State Com 31-18S-35E #201H (formerly Airstrip 31 State #2H)  
Section 31-18S-35E  
Lea County, New Mexico

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



NMOCD Case No. 15363  
Hearing: SEP 29, 2015

Jalapeno EX **3**

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.