

# COMMUNICATION SUMMARY REGARDING EAST HALF SECTION 28, T-19-S, R-33-E, LEA COUNTY, NEW MEXICO

| DATE     | TYPE         | FROM                 | TO                 | DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------|--------------|----------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 08/07/98 | letter       | Penwell - Baimbridge | Matador - Ables    | Transmittal of AFE for Jade "28" Fed Com #1 well to be drilled in SE/4 Section 28. No JOA attached or formal well proposal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 08/11/98 | phone        | Matador - Ables      | Penwell - Wheeler  | Inquiry to Penwell's proposed timing for the well. Answer "late this year". Mark had concerns that this may be located within the Potash area and permitting may take longer than expected.                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 08/20/98 | phone        | Matador - Ables      | Penwell - Wheeler  | Told Mark that Matador had a well in the E/2 Sec. 28 in our prospect inventory for 99. I told him we would be willing to drill this year, but we would want to operate with our 50% WI. He said even though they only own 25% WI, they would insist on operating. We discussed who had the closest existing operations. Penwell has operations 4 miles S/SE. Matador has operations immediately to the west in the Maduro Unit, and also in the Laguna Deep Unit located to the East. . We also discussed Penwell's AFE of \$1.4 million as I told him that was higher than what we had been drilling our Morrow wells for. |
| 08/21/98 | phone        | Matador - Ables      | Tom K              | Discussion of facts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 08/21/98 | letter       | Penwell - Wheeler    | Matador - Ables    | Transmittal of JOA for Jade "28" Fed Com #1 well.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 08/31/98 | fax          | Matador - Russ       | Matador - Ables    | Russ forwarded a fax of the pooling application the Midland office received from Bill Carr attorney for Penwell                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 08/31/98 | fax          | Matador - Ables      | Tom K              | Forwarded Penwell pooling application                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 08/31/98 | cert. Letter | Matador - Ables      | Santa Fe - Wilhelm | Mailed well proposal for Topacio Fed Com #1 well in NE/4 Section 28, with AFE FOR \$1.3 million and draft of JOA to govern operations. Matador operator.                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 08/31/98 | cert. Letter | Matador - Ables      | Penwell - Wheeler  | Mailed well proposal for Topacio Fed Com #1 well in NE/4 Section 28, with AFE FOR \$1.3 million and draft of JOA to govern operations. Matador operator.                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 9/1/98   | in person    | Matador - Ables      | Santa Fe - Smith   | Met w/Steve Smith at Santa to hand deliver well proposal. He said they like the area but would rather wait til 99 to drill. He verbally said Santa Fe would support Matador as operator since we have the majority interest and closest operations. Santa Fe expressed disappointment with Penwell's handling. Specifically, no phone call or visit from Penwell prior to Santa Fe receiving the pooling application.                                                                                                                                                                                                       |

BEFORE THE

OIL CONSERVATION DIVISION

Case No. 12063 Exhibit No. 3

Submitted By:

**Matador Petroleum Corp.**

Hearing Date: November 19, 1998

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| 9/1/98   | in person | Matador - Ables         | Penwell - Wheeler             | Met w/Mark Wheeler and offered to share well information to help them understand why we prefer to drill in the NE/4 Section 28. Mark said they did not want to review the information. He said they wanted the well in the SE/4 Section 28 and that by directive of a higher up, operator ship was not negotiable. He said they could probably agree to wait til 99 to drill. I told him we were disappointed that they did not try to work something out with us before filing their application. He said "don't take it personal", this is just the way you do business in New Mexico. |
| 9/21/98  | phone     | Matador - Ables         | Penwell - Wheeler             | left message on voice mail for Mark regarding status.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 9/23/98  | phone     | Matador - Ables         | Penwell - Wheeler             | left message on voice mail for Mark regarding status.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 9/28/98  | phone     | Penwell - Wheeler       | Matador - Ables               | Mark apologized for the delay, they have had several people in and out of the office. They will agree to allow Matador to operate and wait til 99 to drill, but they want the well in their proposed location.                                                                                                                                                                                                                                                                                                                                                                           |
| 10/13/98 | phone     | Matador - Ables         | Santa Fe - Wilhelm            | Gregory says they want the Wolfcamp formation included. If they are sharing risk in the initial well, they want to be able to reap the reward on subsequent wells.                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 10/13/98 | phone     | Matador - Ables         | Penwell - Wheeler             | left message on voice mail. Message says Mark is out of the office 10/12 and 10/13.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10/14/98 | phone     | Matador - Ables         | Penwell - Wheeler             | left message on voice mail for Mark regarding status.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 10/14/98 | phone     | Matador - Ables         | NMOCD                         | Inquiry as to whether case still on docket. They responded yes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 10/15/98 | in person | Matador - Foran Ventura | Santa Fe - Smith Adams Tinney | Santa Fe still wants Wolfcamp included, but will let Matador know for sure whether they want to participate by Monday (10/19).                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10/15/98 | phone     | Matador - Ables         | Santa Fe - Smith              | Steve told me Penwell has everything in a package. Santa Fe looked at their deal and thought it was overpriced. Santa Fe leaning towards wanting to participate in the well.                                                                                                                                                                                                                                                                                                                                                                                                             |
| 10/16/98 | phone     | Matador - Ables         | Penwell - Wheeler             | Called for Mark, receptionist said he had left for the day.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

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| 10/19/98 | phone     | Santa Fe - Smith    | Matador - Ables     | Santa Fe wants to farmout SE/4 Sec. 28 all depths, deliver 75% NRI, convert 1/2 of retained ORRI to 25% BI APO. I talked w/Mr. Foran he said go forward with farmout.                                                                                                                                                                                                                                                                   |
| 10/20/98 | letter    | Santa Fe - Smith    | Matador - Ables     | Letter of intent setting out farmout terms for signature by Matador. Signed and returned 10/26.                                                                                                                                                                                                                                                                                                                                         |
| 10/20/98 | phone     | Matador - Ventura   | Penwell - Wheeler   | Jeff received a voice mail from Mark Wheeler and forwarded to me for handling. Penwell will postpone hearing til 11/5, waiting on formal letter agreement from Matador stating the JOA will cover all depths as to the S/2NE and N/2SE. Wolfcamp will be excluded in remainder of E/2                                                                                                                                                   |
| 10/20/98 | in person | Matador - see desc. | Penwell - see desc. | Matador representatives Ventura, Evans, Burgman, Macho and Miller went to Penwell's office for a presentation of Penwell's proven undeveloped locations which would be included in the reserve report Penwell provided to companies interested in making an offer to purchase Penwell's position in SE New Mexico. Matador reviewed the drilling inventory. Penwell representatives in attendance were Thoma, Wheeler, Foy and Bergman. |
| 10/22/98 | fax       | Matador - Ables     | Penwell - Wheeler   | Faxed revised Exhibit "A" to Mark showing Wolfcamp would be included in S/2NE and N/2SE and notified Penwell in writing that we continued our hearing til November 5.                                                                                                                                                                                                                                                                   |
| 10/27/98 | phone     | Penwell - Wheeler   | Matador - Ventura   | Jeff forwarded message where Penwell indicated they have turned interest to Nearburg for 1/3 carry to casing point. Penwell WI BCP - 0; WI ACP - 16.67%; Nearburg WI BCP - 25%; WI ACP 8.33%                                                                                                                                                                                                                                            |
| 10/27/98 | fax       | Matador - Ables     | Penwell - Wheeler   | Prepared revised Exhibit "A" to JOA showing Nearburg's interest and reflecting Penwell's carry.                                                                                                                                                                                                                                                                                                                                         |
|          |           | Matador - Ables     |                     | Although I did not receive formal notification from Penwell, Nearburg declined to go forward with their deal with Penwell.                                                                                                                                                                                                                                                                                                              |
| 11/1/98  | phone     | Matador - Ventura   | Penwell - ?         | Requested Penwell's suggestion for how to resolve this without the necessity of a hearing.                                                                                                                                                                                                                                                                                                                                              |
| 11/1/98  | phone     | Matador - Foran     | Penwell - Foy       | Discussion to attempt to work out a possible solution to resolve issues. Mr. Foran, President of Matador, offered to give Penwell a 5% carry to casing point to get a commitment on their 25% interest. Penwell declined our offer and countered requesting a 8.33% carry to casing point. Matador economics do not support an 8.33% carry.                                                                                             |

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| 11/17/98 | in person | Matador -Manny | Matador - Ables | Notification that Penwell revoked their original request for bid since it only covered Penwell's individual interest and was offered subject to an investment agreement with pref. Rights with MCNIC. Currently, a revised proposal which offers both the MCNIC interests and Penwell's interest jointly in a package is available. Matador plans to review the package November 18. |