

MATADOR PETROLEUM CORPORATION

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(214) 373-8792
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Joseph Wm. Foran
Chairman and CEO
(214) 373-8788

June 15, 1994

Paloma Resources, Inc.
Attn: Mr. H. E. Gene Lee
P. O. Box 1814
Roswell, NM 88201

Re: Perry Federal #2 Well (Unit O)
Perry Federal #3 Well (Unit K)
Section 29, T15S, R30E, NMPM
Chaves County, New Mexico

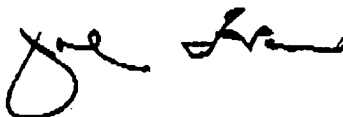
Dear Gene:

I am writing to express my concern that you have excluded Matador Petroleum Corporation's acreage in the NW/4NW/4 of this Section from participation in the Morrow gas production you are producing from the referenced wells.

As you should know, these two Morrow wells are dedicated to the Little Lucky Lake Morrow Gas Pool which, under the general statewide rules of the New Mexico Oil Conservation Division, require the dedication of 320-acres per well. In addition, you should know that, except for certain very limited conditions which do not exist here, you are precluded from concurrently producing two Morrow gas wells in a non-prorated gas pool. Thus you cannot preclude us from participation by dedicating the S/2 of Section 29 to these two wells.

Matador's correlative rights are being impaired and we are adversely affected by being excluded from participation in this Morrow production. We would appreciate hearing your proposed solution to this inequity within the next ten days.

Very truly yours,



Joseph Wm. Foran

JWF/dm

FOR YOUR INFO:

Post-It™ brand fax transmittal memo 7671 # of pages 1

To JERRY SEXTON	From GENE LEE
Co. OIL CON. DIVISION	Co. PALOMA RESOURCES
Dept.	Phone # 672-7355