

Matador Production Company

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darnold@matadorresources.com

RECEIVED OCD

2015 NOV -9 P 1:08

Dana R. Arnold
Staff Attorney

November 9, 2015

SENT VIA FEDEX

David Catanach, Director
Oil Conservation Division
New Mexico Department of Energy, Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Statement of Adverse Impact—Rustler Breaks 12 24 27 #1H Well

Dear Mr. Catanach:

On October 14, 2015, the Artesia District OCD office notified Matador Production Company ("Matador") that its review of the Rustler Breaks 12 24 27 #1H well, API No. 30-015-41775 (the "Well") indicated that the Well had been placed in the wrong pool designation and, accordingly, the pool would be changed to WC-015 G-07 S242712P, Upr Wolfcamp (Pool Code 98164) (the "Oil Pool"), the dedicated acreage would be reduced from 320 acres to 160 acres, the change was effective immediately, and Matador would need to amend all previously reported production (collectively, the "Reclassification"). (A copy of the notice letter is attached as Exhibit "A".)

This Statement of Impact shall serve as Matador's request that the New Mexico Oil Conservation Division ("OCD" or "Division") rescind the Reclassification for the following reasons: (1) the Well has been producing and continues to produce retrograde gas from a gas reservoir and the liquids accumulated at the surface are condensate, (2) a change to the project area

adversely impacts the correlative rights of the interest owners, and (3) immediately applying the change to the unit size retroactively without notice and hearing exceeds the authority of the OCD and places an untenable burden on Matador.

FACTUAL BACKGROUND

On October 23, 2013, the Division issued Order No. R-13763 (the "Order," attached as Exhibit "B") in Case No. 15039 (the "Case") pooling all uncommitted interests in the Wolfcamp Formation in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM in Eddy County, New Mexico to form a standard 320-acre spacing and proration unit (the "Unit"). Paul Kautz, an OCD Geologist, provided the pool information to Matador in August 2013, specifically the East Black River—Wolfcamp Gas Pool (Pool Code 77442) (the "Gas Pool"). (See email attached as Exhibit "C"). Based on that information, Matador testified as to the applicable Gas Pool for the Well and the resulting Order dedicated the Well to the 320 acre Unit in the Gas Pool. (See the Transcript attached as Exhibit "D", Line 2, Page 8). In accordance with the Order, Matador commenced drilling the Well on December 7, 2013 and completed it on February 22, 2014. Relying on the representations of the OCD as to the appropriate pool and Unit, Matador executed a Declaration of Pooled Unit on April 1, 2014 and filed it of record in the County Records of Eddy County. (Attached as Exhibit "E"). As of August 2015, the Well had produced 739,780 Mcf of gas and 87,269 Bbl of oil from the Gas Pool, and Matador had paid approximately \$1.8 million in royalty disbursements based on the 320 acre Unit.

As stated above, on October 14, 2015, over a year since the Well first produced and without any prior notice, Matador was informed by the Artesia District OCD office of the Reclassification.

1. The Well has been producing and continues to produce retrograde gas from a gas reservoir and the liquids accumulated at the surface are condensate.

The Well has been producing and continues to produce retrograde gas from a gas reservoir and the liquids that have accumulated at the surface are condensate as opposed to oil. Therefore, the Well was correctly assigned to the Gas Pool. According to the OCD Rules, "Pool" means an underground reservoir containing a common accumulation of oil or gas and furthermore it is synonymous with "common source of supply" and with "common reservoir." 19.15.2.7.¶(5).

The OCD's initial classification of the Well as a gas well was correct. Rule 19.15.2.7(G) defines a gas well as "*a well producing gas from a gas pool, or a well with a gas-oil ratio in excess of 100,000 cubic feet of gas per barrel of oil producing from an oil pool.*" The OCD's process for determining a pool designation for a particular well is to contact the OCD and communicate the location of the well and the formation from which it will produce. The OCD geologist then assigns a well to a pool. Matador followed this process. Matador contacted the OCD and communicated the location of the well and the planned formation. Matador was then told by the OCD geologist that the appropriate pool was the Gas Pool (See Exhibit "C"). As a result, Matador filed the appropriate form, C-105 (See Exhibit "F"), for the Well on May 28, 2104, which stated that the first test for the Well was on March 4, 2014 and showed a gas-oil ratio ("GOR") of 7,583 cubic feet of gas per Bbl.

Additionally, the OCD's initial classification of the Gas Pool for the Well is affirmed by industry authority. Based on the guidelines outlined by well-known industry authority, William D. McCain, Jr., in his seminal work "The Properties of Petroleum Fluids," the Well has been and continues to produce retrograde gas from a gas pool. The first guideline states that the lower limit of the initial producing GOR for a retrograde gas is ~ 3,300 cubic feet of gas per Bbl of oil and the subject Well's initial producing GOR was approximately 7,000 to 8,000 cubic feet of gas per Bbl. The second guideline for retrograde gas is that the stock-tank liquid gravities are between 40° and

60° API and increase as reservoir pressure falls below the dew-point pressure. The Well fits squarely within this range as it had an initial stock-tank liquid gravity of 52.2° API and in the most recent test the gravity increased to 53.4° API.¹ The third guideline for retrograde gas is that the producing GOR will increase after production begins when the reservoir pressure falls below the dew-point pressure of the gas. The Well has done just that, with an increase in its GOR to over 8,000 cubic feet of gas per Bbl of oil. The fifth and final guideline for retrograde gas is that the color of the liquid produced at the surface is typically a light color such as brown, orange, greenish or water-white. The liquid produced from the Well is pale yellow.

The Reclassification is arbitrary and unfair since the Well's GOR shows that it clearly produces retrograde gas from the Gas Pool substantially similar to the nearby Wolfcamp wells. Matador conducted an analysis of the GOR of 118 wells producing from the Wolfcamp formation over an area ranging from Township 22S, Range 26E to Township 25S, Range 29E.² (See map attached as Exhibit "G") The analysis showed that approximately 90% of the wells studied qualify as gas producers. Matador found that the GOR of the vertical wells were, by and large, higher compared to the horizontal wells producing from the Wolfcamp formation. In the wells studied, the average GOR was 46,000 cubic feet of gas per bbl. The State MS Gas Com #001 well, API # 30-015-24176 (the "State MS Well"), located in the north half of the same section as the Matador Well,³ produces from the same Gas Pool, has a GOR of approximately 43,000 cubic feet of gas per bbl and is classified as a gas well. Applying the analysis detailed above, both the State MS Well and the Well produce retrograde gas. (See graph attached as Exhibit "H"). For the OCD to

¹ The test was conducted on June 26, 2014.

² The study was conducted based on monthly production data reported to the OCD. The study calculated the average 6 month GOR, 6 month cum gas * 1000/6mo cum oil for 118 wells. Data was omitted if: (i) there was not 6 months of data or the data was inaccurate, (ii) the wells produced from zones above the Well in question, and (iii) the well produced from multiple formations.

³ Approximately 4,250 feet from the Matador Well's lateral.

treat the Well differently than the State MS Well and the vast majority of similarly situated wells would be arbitrary, unfair and inconsistent.

If Matador had been made aware of the Reclassification within the early months of the Well's production, it could have conducted tests that would have definitively established that the Well produces retrograde gas. At this point in the life of the Well, the producing GOR has started increasing as a result of the reservoir pressure falling below the dew point of the gas, and the applicable test is no longer a viable determination of the character of the reservoir fluid. It appears Matador's only remedy to protect itself against future re-classifications of this type is to conduct a laboratory PVT test at considerable expense, approximately \$20,000-\$30,000, acquire produced fluid samples (gas and oil), recombine them at initial reservoir pressure and temperature conditions, and measure the saturation pressure (dew-point pressure / boiling point pressure) to determine the initial phase of the reservoir fluid e.g., retrograde gas. Equipped with the data provided from such a PVT test, Matador would be in a better position to defend against any subsequent reclassification of a well. In this case, Matador had no indication that the Order would be arbitrarily vacated without due process, and unfortunately the PVT test is no longer a workable option. Nevertheless, as demonstrated, all of the currently available data on the Well fits the OCD's definition of a gas well and further meets industry guidelines for a retrograde gas reservoir.

2. Changing the unit size adversely impacts the correlative rights of the interest owners.

A change to the unit size for the Well at this stage of production will adversely impact the correlative rights of the interest owners. In reliance on the Divisions original Well classification, revenue from the Well's production has been attributed to owners based on a pooled unit size of 320 acres and all royalty calculations have been made and paid accordingly. There are 36 royalty interest owners in the Unit split among three separate fee tracts. (See Tract Map attached as Exhibit

“1”). More specifically, Tract 1 of the Unit, 220 acres, more or less, is comprised of the E3/4SW/4, W/2SE/4, S/2SE/4SE/4, Section 12, Range 24S, Township 27E contains 13 royalty interest owners and 4 overriding royalty owners. Should the Unit be contracted to 160 acres retroactively, the interest owners from Tract 1 would collectively own a 6.25% larger share of the production from the Well. Tract 2 of the Unit, 60 acres, more or less, is comprised of the NE/4SE/4, N/2SE/4SE/4, Section 12, Range 24S, Township 27E, contains 10 royalty interest owners and 3 overriding royalty owners. Should the Unit be contracted to 160 acres, it would have a detrimental impact for the interest owners from Tract 2 as they would collectively own a 6.25% smaller share of the production from the Well retroactively adjusted to first production. All interest owners, including Matador, are, at the very least, entitled to notice and hearing before the OCD constricts the Unit and adversely impacts their correlative rights.

3. Applying the change to the unit size retroactively and immediately exceeds the authority of the OCD and places an untenable burden on the Operator.

To retroactively and immediately constrict the size of a Unit, subject to an existing order, without notice and hearing, exceeds the Authority of the OCD. The OCD rules contemplate that “the division may, ***after hearing***, set different spacing requirements and require different acreage for drilling tracts in a defined oil or gas pool.” 19.15.15.15. Matador and all interest owners are entitled to due process in this regard, including notice and hearing, before a change to the Unit size can be effected by the OCD. Furthermore, nothing in the OCD rules or practice contemplates a retroactive change to a Unit that will affect royalties that have been paid and allocated for well over a year.

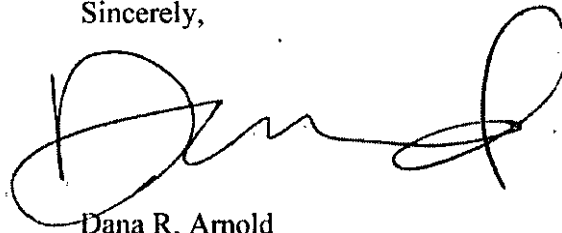
In addition to the problems associated with the retroactive application of the Reclassification, it is unreasonable to immediately impose the constriction to the Unit size, as

Matador will need time to deal with the administrative and practical burdens of such a change. A reduction in Unit size will affect Matador's leasehold interest, including an unfair forfeiture of property rights. Further, if the Reclassification is upheld, Matador would be forced to account to the owners of Tract 1 for additional royalties, which it had already disbursed to other interest owners based on the 320 acre unit size, and reach an agreement with all interest owners in Tract 2 who would have received a windfall. Administratively, Matador will need to order a new Division Order Title Opinion, re-setup its payment decks, and amend pooling declarations. In consideration of the deleterious impact to the royalty owners, working interest owners and Matador, as operator of the Well, combined with the practical realities involved with a retroactive accounting, Matador respectfully requests that the Reclassification be rescinded. Should the Division uphold the Artesia District's decision to constrict the Unit size, Matador asks the Division grant a reasonable grace period for an enactment of the change.

In closing, Matador relied on the representations and rulings of the Division in establishing the unit size for the Well. Matador believes that the initial classification of the Well as a gas well producing from a Gas Pool was and continues to be correct. A retroactive Reclassification and change to 160 acre unit size will adversely impact the correlative rights of the interest owners for this Well. Matador hopes that the OCD will reflect on the detrimental impact such a change will have altogether and reconsider its decision; but to extent that it does not withdraw its reclassification of the Well, it allow for a 320 acre unorthodox oil proration and spacing unit for the Well consisting of a 320 acre project area. Alternatively, if the Division is inclined to uphold the Reclassification and constrict the size of the Unit, Matador asks that any such change be made prospectively, after adequate notice and hearing, and with a reasonable period of adjustment.

We appreciate you taking this matter under consideration and will make our technical team available for a meeting with the Division at your earliest convenience to discuss this matter further.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dana R. Arnold'. The signature is fluid and cursive, with a large initial 'D' and a long, sweeping tail that loops back.

Dana R. Arnold



From: Ava Monroe
Sent: Wednesday, October 14, 2015 5:25 PM
To: Jonathan Filbert; Dana Arnold
Subject: FW: 30-015-41775 Rustler Breaks 12 24 27 #1H

Jon, Dana,
See the message below.

Thanks,

Ava Monroe
Sr. Engineering Technician
Matador Production Company
5400 LBJ Freeway, Ste. 1500
Dallas, TX 75240
Ph 972.371.5218
Fax 972.371.5201
amonroe@matadorresources.com



From: Sharp, Karen, EMNRD [mailto:Karen.Sharp@state.nm.us]
Sent: Wednesday, October 14, 2015 4:35 PM
To: Ava Monroe <AMonroe@matadorresources.com>
Cc: Dade, Randy, EMNRD <Randy.Dade@state.nm.us>; Kautz, Paul, EMNRD <paul.kautz@state.nm.us>
Subject: FW: 30-015-41775 Rustler Breaks 12 24 27 #1H

Ava:

A review of the subject well reveals this well has been placed in a wrong pool designation. The correct pool designation should be 98164 WC-015 G-07 S242712P;Upr Wolfcamp. This is an oil pool and representative of this well's corrected classification and location. Dedicated acreage will reduce from 320 acres to 160 acres. I am making this change in our records today; therefore, this well cannot be reported under pool 77442 Black River;Wolfcamp, East (G) subsequent to today. Additionally, production previously reported to pool 77442 will need to be amended to pool 98164.

If you have any questions, please let us know. Thank you ~

Karen Sharp

Business Operations Specialist-Advanced
NMOCD / Artesia / District II
Office: (575) 748-1283 x 109
Fax: (575) 748-9720

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:



CASE NO. 15039
ORDER NO. R-13763

APPLICATION OF MATADOR PRODUCTION COMPANY FOR
COMPULSORY POOLING AND UNORTHODOX WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 17, 2013, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 23rd day of October, 2013, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.
- (2) Matador Production Company ("Applicant"), seeks an order pooling all uncommitted interests in the Wolfcamp formation [East Black River-Wolfcamp Gas Pool (97442)] in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM, in Eddy County, New Mexico, to form a standard 320-acre spacing and proration unit ("the Unit") in the East Black River-Wolfcamp Gas Pool (97442).
- (3) The Unit is to be dedicated to Applicant's proposed Rustler Breaks 12-24-27 Well No. 1H (API No. not yet assigned), (the "proposed well"), a horizontal well to be drilled at a non-standard surface location 380 feet from the South line and 330 feet from the East line (Unit P) of Section 12 to a non-standard terminus 380 feet from the South line and 330 feet from the West line (Unit M) of Section 12.
- (4) Spacing in the East Black River-Wolfcamp Gas Pool is governed by statewide Rule 19.15.15.10.B NMAC, which provides for 320-acre units, with wells to be

located no closer than 660 feet from the outer boundaries of the unit. The location of the proposed well is unorthodox because the proposed completed interval is less than 660 feet from the outer boundaries of the project area.

(5) Applicant offered testimony at the hearing indicating that

(a) the proposed non-standard location is necessary in order to effectively produce the hydrocarbons in the Wolfcamp formation underlying this Unit; and

(b) Applicant gave notice of this application and of the hearing to all affected persons in offsetting spacing units towards which the proposed unorthodox location would encroach.

(6) No person appeared at the hearing in opposition, or otherwise notified the Division of any objection, to the granting of this application or to the proposed non-standard location.

(7) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(9) There are interest owners in the Unit that have not agreed to pool their interests.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons,

(a) this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit; and

(b) the non-standard location of the proposed well should be approved.

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Production Company, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation [East Black River-Wolfcamp Gas Pool (97442)] in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM, in Eddy County, New Mexico, are hereby pooled to form a standard 320-acre oil spacing and proration unit ("the Unit).

(2) The Unit shall be dedicated to Applicant's proposed Rustler Breaks 12-24-27 Well No. 1H (API No. not yet assigned), (the "proposed well"), a horizontal well to be drilled at a non-standard surface location 380 feet from the South line and 330 feet from the East line (Unit P) of Section 12 to a non-standard terminus 380 feet from the South line and 330 feet from the West line (Unit M) of Section 12.

(3) The unorthodox location of the proposed well is hereby approved.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 1, 2014, and shall thereafter continue drilling the well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed well on or before the date provided in the immediately preceding paragraph, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless the operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rules 19.15.13.9 through 19.15.13.11 NMAC, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Matador Production Company (OGRID 228937) is hereby designated the operator of the proposed well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of

working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS



From: Kautz, Paul, EMNRD <paul.kautz@state.nm.us>
Sent: Tuesday, August 06, 2013 9:07 AM
To: Jonathan Filbert
Subject: RE: SE/4/SE/4 Section 12- T24S-R27E

Jonathan

The closest Wolfcamp pool to P-12-24S-27E is the Black River; Wolfcamp, East (Gas) in the northern half of Section 12. A Standard location for this pool is 660' from the Q line and no closer than 10' to the Q/Q line and 320 acre spacing.

Paul Kautz
Hobbs District Geologist
1625 N French Dr.
Hobbs, NM 88240
575-393-6161 ext. 104

From: Jonathan Filbert [mailto:jfilbert@matadorresources.com]
Sent: Tuesday, August 06, 2013 7:49 AM
To: Kautz, Paul, EMNRD
Subject: SE/4/SE/4 Section 12- T24S-R27E

Paul,

As discussed I was looking to get the closest Wolfcamp pool information for our upcoming well in Section 12, T24S-R27E. We are looking to have the surface location in the SE/4SE/4 corner. Please, let me know if you need any more information.

Thank you for your help.

Jonathan Filbert
Senior Staff Landman

Matador Resources Company
One Lincoln Centre
5400 LBJ Freeway
Suite 1500
Dallas, Texas 75240

Phone: 972-371-5275
Cell: 972-814-6347
jfilbert@matadorresources.com



3 IN THE MATTER OF THE HEARING CALLED
4 BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

ORIGINAL

5 APPLICATION OF AMENDED APPLICATION
6 OF MATADOR PRODUCTION COMPANY FOR
7 COMPULSORY POOLING AND UNORTHODOX
WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

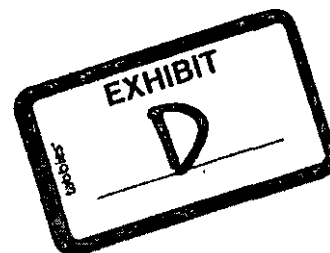
CASE NO. 15039

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 17, 2013

Santa Fe, New Mexico



BEFORE: DAVID K. BROOKS, CHIEF EXAMINER

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, David K. Brooks,
20 Chief Examiner, on Thursday, October 17, 2013, at the
21 New Mexico Energy, Minerals and Natural Resources
22 Department, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

23 REPORTED BY: Mary C. Hankins, CCR, RPR
24 New Mexico CCR #20
25 Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

APPEARANCES

FOR APPLICANT MATADOR PRODUCTION COMPANY:

MICHAEL H. FELDEWERT, ESQ.
HOLLAND & HART
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
mfeldewert@hollandhart.com

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EXHIBITS OFFERED AND ADMITTED

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1 (9:02 a.m.)

2 EXAMINER BROOKS: Call Case Number 15039,
3 amended application of Matador Production Company for
4 compulsory pooling and unorthodox well location, Eddy
5 County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: Mr. Examiner, Michael
8 Feldewert, with the Santa Fe office of the law firm of
9 Holland & Hart, appearing on behalf of the Applicant,
10 Matador Production Company. I have one witness here
11 today.

12 EXAMINER BROOKS: Very good. Have your
13 witness stand and identify himself.

14 State your name, please, for the record.

15 MR. FILBERT: Jonathan Filbert.

16 EXAMINER BROOKS: Would you please swear
17 the witness?

18 JONATHAN FILBERT,
19 after having been first duly sworn under oath, was
20 questioned and testified as follows:

21 EXAMINER BROOKS: Okay. You may proceed.

22 MR. FELDEWERT: Thank you, Mr. Examiner.

23 DIRECT EXAMINATION

24 BY MR. FELDEWERT:

25 Q. Mr. Filbert, would you please identify by whom

1 you are employed and in what capacity?

2 A. I work for Matador Resources Company, and I'm a
3 senior staff landman for them.

4 Q. And have you previously testified before this
5 Division?

6 A. No, sir, I haven't.

7 Q. Why don't you review for us your educational
8 background?

9 A. I attended the University of Oklahoma, where I
10 double majored in energy management and finance there,
11 modern economics.

12 Q. And when did you graduate?

13 A. 2010.

14 Q. And once you graduated in 2010, what did you do
15 after that?

16 A. I worked directly for Chesapeake Energy in the
17 Utica and Marcellus districts for them.

18 Q. In what capacity did you work for Chesapeake?

19 A. As a landman.

20 Q. And how long were you with Chesapeake?

21 A. Two years eight months.

22 Q. And who did you work for after Chesapeake?

23 A. I went to work for Matador Resources.

24 Q. So sometime in 2013?

25 A. Yes, sir.

1 Q. What is your position with Matador?

2 A. Senior staff landman.

3 Q. And have your responsibilities included the
4 Permian Basin?

5 A. Yes, sir.

6 Q. Are you a member of any professional
7 organizations?

8 A. Yes, sir, AAPL, DAPL, Young Professionals in
9 Energy.

10 Q. How long have you been a member of the AAPL?

11 A. Since 2008.

12 Q. And then the DAPL is what?

13 A. The Dallas Association of Petroleum Landmen.

14 Q. And is that where you reside?

15 A. Yes, I do, in Dallas, Texas.

16 Q. And how long have you been a member of that
17 organization?

18 A. About a year.

19 Q. And then you mentioned something, YPE. What is
20 that?

21 A. It's Young Professionals in Energy. It's an
22 organizational group that -- you know, gathering
23 engineers, geologists and landmen together that are
24 young professionals.

25 Q. Is that a national organization?

1 A. Yes, it is.

2 Q. Does it have local chapters?

3 A. It does.

4 Q. And how long have you been a member of the YPE?

5 A. That has been about two years now.

6 Q. Are you familiar with the application that's
7 been filed in this case?

8 A. Yes, sir, I am.

9 Q. And are you familiar with the status of the
10 lands of the subject area?

11 A. Yes, sir.

12 MR. FELDEWERT: Mr. Examiner, I tender
13 Mr. Filbert as an expert witness in petroleum land
14 matters.

15 EXAMINER BROOKS: So qualified.

16 Q. (BY MR. FELDEWERT) Mr. Filbert, would you turn
17 to what's been marked as Matador Exhibit Number 1?
18 Would you first identify it?

19 A. This is a section map showing Matador's acreage
20 in section -- the south half of Section 12, Township 24
21 South, Range 27 East, showing our lateral in the
22 southern portion of that section.

23 Q. So it shows your acreage that you hold in
24 yellow?

25 A. Yes, sir.

1 Q. And this is your proposed well in what would be
2 the south half-south half of Section 12?

3 A. That's correct.

4 Q. What are you seeking here under this
5 application?

6 A. We are seeking a nonstandard location, 330 off
7 of the far east line, 330 at the far west line, and 380
8 off of the far south line.

9 Q. What else are you seeking? Are you seeking to
10 pool the acreage?

11 A. Yes, sir, as well. Yeah.

12 Q. Pooling the south half?

13 A. Yes.

14 Q. What pool is involved with this application?

15 A. ~~This is the Black River-Wolfcamp East pool.~~

16 Q. Now, are you actually in that pool, or are you
17 within a mile of that pool?

18 A. ~~We're within a mile of that pool.~~

19 EXAMINER BROOKS: I'm sorry. What was the
20 pool?

21 A. It's the Black River-Wolfcamp East pool.

22 MR. FELDEWERT: And, Mr. Examiner, the pool
23 code is 97442.

24 EXAMINER BROOKS: Okay. Thank you.

25 Q. (BY MR. FELDEWERT) Now, was that the pool that

1 was provided to you from someone within the Division?

2 A. Yes, sir, it was. ~~Paul-Kautz~~ provided that
3 information to us.

4 Q. And does this pool ~~require~~ 320-acre spacing
5 units?

6 A. It does, yes.

7 Q. And that's what you're seeking to pool here
8 today, the south half of Section 12?

9 A. The standard 320.

10 Q. The standard unit under the pools?

11 A. That's correct.

12 Q. Now, these pool rules -- is this pool subject
13 to standard pool rules?

14 A. Yes.

15 Q. So it would be normally subject to a 660-acre
16 setback?

17 A. That's correct.

18 Q. For this particular well, you're seeking
19 approval of a location where you are 330 feet from the
20 east line and 330 -- and 380 feet from the south line
21 for your surface location; is that correct?

22 A. That is correct.

23 Q. So that would be Unit P?

24 A. I believe so, yes sir.

25 Q. And then your bottom hole that you're seeking

1 approval for is 330 feet from the west line?

2 A. Uh-huh.

3 Q. And 380 feet from the south line?

4 A. Yes, sir. That's correct.

5 Q. So you'll essentially be encroaching on spacing
6 units to the east, southeast, south, southwest, correct?

7 A. Yes, sir.

8 Q. What is the reason for the request of the
9 unorthodox location for this initial horizontal well?

10 A. Our engineers believe it will maximize
11 drainage -- the most efficient draining in the Wolfcamp,
12 and also spacing in the unit.

13 Q. Now, do you have yet an API number for this
14 well?

15 A. No, sir, we do not.

16 Q. Are you in the process of putting together and
17 filing the C-102?

18 A. Yes, sir. We're days away from having that
19 filed.

20 Q. Is the south half of Section 12 all fee lands?

21 A. Yes, sir..

22 Q. If I turn to what's been marked as Matador
23 Exhibit Number 2, does this identify the interest owners
24 in your proposed 320-acre spacing unit and project area
25 that you seek to pool?

1 A. Yes, sir.

2 Q. Now, does it show the lease interest owners at
3 the top of this exhibit?

4 A. I apologize. Say that one more time.

5 Q. Are the interest owners listed at the top of
6 Exhibit Number 2?

7 A. Yes. Those are --

8 Q. Parties that you seek to pool?

9 A. Yes, sir. Those are unleased parties.

10 Q. And you break down their interest both in
11 the -- by way of the tract in which they hold their
12 interest and then their total interest in your proposed
13 south-half spacing unit?

14 A. That's correct.

15 Q. And if I look at the second chart which
16 identifies these interest owners, they have very small
17 interests in your south-half spacing unit, correct?

18 A. Yes, sir.

19 Q. There is an identification here of the first
20 interest owners that you seek to pool as the possible
21 claimants to the mineral interest owned by Thomas B.
22 and Martha Stribling. What is the circumstance
23 associated with that particular interest?

24 A. That interest is currently in litigation.
25 There are two different trusts that were formed by

1 different family members, and they are -- they sued each
2 other, and it's been an ongoing suit for four to five
3 years now. We've contacted them several times. You
4 know, we've asked them about when this would be -- they
5 have no availability -- they've told us that they have
6 no availability to lease due to the current suit.

7 Q. Were you then able to submit to them a
8 well-proposal letter and have subsequent contacts with
9 them about this pooling application?

10 A. Yes, sir.

11 Q. Now, you also mention here as a second interest
12 that you seek to pool the possible claimants to the
13 mineral interest owned by Joe H. Beeman. What are the
14 circumstances? Is Mr. Beeman -- is he deceased?

15 A. Yes, he is.

16 Q. Have you been able to locate and confirm all
17 the heirs?

18 A. We have not been able to determine ownership in
19 that tract. That title is very convoluted. It's --
20 there have been over 25 -- in that one tract by
21 Mr. Beeman. We spoke to Joe Beeman, Jr. and also
22 Jacqueline [sic] as well, which are the son and daughter
23 of Mr. Beeman, and they have no claim to it. The
24 interest, we cannot determine title in there. We've
25 spent numerous months in there with our title attorneys

1 and stuff like that.

2 Q. And if I flip over to what's been marked as
3 Matador Exhibit Number 3, is that a copy of the Notice
4 of Publication in the local newspaper that's directed
5 both to potential interest owners in the Stribling
6 interest, as well as the heirs and devisees of Joe
7 Beeman?

8 A. That's correct.

9 Q. And it provides notice of hearing today?

10 A. Yes.

11 Q. The final interest owner in here is a Bertha
12 Lorene Osborn?

13 A. Uh-huh.

14 Q. Have you been able to contact Ms. Osborn?

15 A. We have not been able to.

16 Q. And what efforts were undertaken -- first off,
17 does Ms. Osborn have an address of record?

18 A. Yes.

19 Q. Was notice of this hearing provided to that
20 address?

21 A. That's correct, yes.

22 Q. Has your company undertaken additional efforts
23 to try to reach Ms. Osborn?

24 A. We have. We've searched multiple Internet
25 sites looking for valid phone numbers, contact

1 information, and we've had no such luck or response
2 back.

3 Q. Now, if I turn to what's been marked as Matador
4 Exhibit Number 4, is that a copy of the well-proposal
5 letter with an AFE that was sent to the interest owners
6 that the company was able to locate?

7 A. That's correct.

8 Q. This particular one was sent to Zia Royalty,
9 correct?

10 A. That's correct.

11 Q. And they are participating in this well?

12 A. They actually -- we signed an oil and gas lease
13 with them.

14 Q. And this letter includes an AFE, correct?

15 A. That is correct.

16 Q. Are the costs that are reflected in this AFE
17 consistent with what other operators have incurred for
18 drilling similar horizontal wells in this area?

19 A. Yes, sir.

20 Q. Has the company also made an estimate of the
21 overhead and administrative costs while drilling this
22 well and also producing if you are successful?

23 A. Yes, sir. It would be 7,000, 700.

24 Q. 7,000 a month while drilling and then 700 a
25 month while producing?

1 A. That's correct.

2 Q. And are those costs identified in Exhibit
3 Number 4, towards the bottom of the first page?

4 A. They are.

5 Q. Are these costs similar to what operators are
6 charging in this area for this type of well?

7 A. Yes, sir.

8 Q. Does Matador request that these costs be
9 incorporated into the order of this hearing and provide
10 for an adjustment in accordance with the COPAS
11 accounting procedures?

12 A. Yes, sir.

13 Q. And does the company also request that the
14 customary 200-percent risk penalty, which is provided
15 under the Division rules, be imposed on each working
16 interest owner that you are unable to locate or does not
17 voluntarily consent to the well?

18 A. Yes, sir.

19 Q. Now, with respect to your nonstandard location,
20 if I turn back to Exhibit Number 1, did the company
21 undertake efforts to identify the affected parties in
22 sections -- in the 320-acre spacing units surrounding
23 your proposed south half of Section 12 spacing unit?

24 A. Yes, sir.

25 Q. And did that include both a potential lay-down

1 or stand-up 320-acre spacing units?

2 A. Yes, sir.

3 Q. And if I turn to what's been marked as Matador
4 Exhibit Number 5, is that a list of the parties that you
5 were able to identify in these surrounding potential
6 spacing units?

7 A. Yes, sir. That's correct.

8 Q. The operator if there was an operator, correct?

9 A. Yes.

10 Q. And the lessee if there was a lessee?

11 A. Uh-huh.

12 Q. And the mineral owner if there was no lease?

13 A. Yes, or if there was no production or lease,
14 yes.

15 Q. And did your company provide notice to all of
16 these parties?

17 A. We did.

18 Q. And if I turn to what's been marked as Matador
19 Exhibit Number 6, is that an affidavit prepared by my
20 office with attached letters providing notice of this
21 hearing, not only to the pool parties, but as well as
22 all these parties affected by the nonstandard location?

23 A. That's correct.

24 Q. And were Exhibits 1 through 5 prepared by you
25 or compiled under your direction and supervision?

1 A. That's correct.

2 MR. FELDEWERT: Mr. Examiner, at this point
3 I would move for admission into evidence of Matador
4 Exhibits 1 through 6, which includes my affidavit.

5 EXAMINER BROOKS: Okay. 1 through 6 are
6 admitted.

7 (Matador Exhibit Numbers 1 through 6 were
8 offered and admitted into evidence.)

9 Q. (BY MR. FELDEWERT) Mr. Filbert, is this well
10 currently on a drilling schedule?

11 A. Yes, sir, it is.

12 Q. And what's the status of that drilling
13 schedule? When do you hope to commence drilling of this
14 well?

15 A. We are currently drilling a well right now. We
16 would like to have this next in line, after completion
17 of the current well. So roughly about 30 days from now.

18 Q. And do you have some leases that are expiring
19 or are of concern to the company?

20 A. Yes, sir. That's correct, December expiration
21 dates.

22 Q. So if at all possible, would you request that
23 the Division enter an expedited order, so we have the
24 ability to move forward in the next 30 days?

25 A. Yes, sir. We would much appreciate it.

1 Q. And is the company willing to spin a draft
2 proposed order to assist the Division, if that would be
3 helpful?

4 A. We are.

5 MR. FELDEWERT: Mr. Examiner, that
6 concludes my examination of this witness.

7 CROSS-EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. Okay. Looking at this Exhibit Number 6, I see
10 Section 11 is covered.

11 And then Section 12 -- that Section 12 --
12 it doesn't encroach in anything in Section 12, right?
13 You give me notice for purposes of NSL, right? Because
14 since your standard spacing unit -- if you don't have --

15 MR. FELDEWERT: Yeah. We're not -- we
16 don't have to worry about the north half of Section 12.

17 EXAMINER BROOKS: Pardon me?

18 MR. FELDEWERT: We didn't have to worry
19 about --

20 EXAMINER BROOKS: No, because that's a
21 large part of this notice, is this ownership list in
22 Exhibit 6, but that's not really involved.

23 THE WITNESS: Okay.

24 Q. (BY EXAMINER BROOKS) Okay. Section 14 you've
25 got covered?

1 A. Yes, sir.

2 Q. Section 18 -- that would be 18 to -- 28 East,
3 right?

4 A. Yes, sir, 24 South, 28 East.

5 Q. COG has the entire north half; Marbob for the
6 south half, but, of course, Marbob is now COG, right?

7 A. Yes, sir.

8 Q. Is 13 -- did you get 13 on here somewhere?
9 Where is 13? I think I've overlooked it.

10 MR. FELDEWERT: I think it's on page 6,
11 Mr. Examiner.

12 EXAMINER BROOKS: Page 6? Oh, I see. Way
13 up at the top.

14 MR. FELDEWERT: Yeah.

15 EXAMINER BROOKS: Very good.

16 Q. (BY EXAMINER BROOKS) You've got the overhead at
17 7,000, 700?

18 A. Yes, sir.

19 Q. The location is -- surface location is 330 from
20 the south and 330 from the east?

21 A. 330 from the east, 380 from the south.

22 Q. 380 from the south.

23 A. Yes, sir.

24 Q. 380 from the south and 330 from the east.

25 And the bottom hole is what?

1 A. 330 from the west, 380 from the south.

2 Q. 380 from the south and 330 from the west.

3 A. That's correct.

4 Q. And you said this was -- this is spaced on 320?

5 A. Yes, sir.

6 Q. So it's just a single unit?

7 A. That's correct.

8 Q. Single spacing unit?

9 A. That's correct.

10 Q. I think that's all I need.

11 EXAMINER BROOKS: Anything further?

12 MR. FELDEWERT: Mr. Examiner, the only
13 question is whether you would like us to submit a draft
14 proposal order to assist in expediting this.

15 EXAMINER BROOKS: I don't think it would
16 help that much. We've got the form, and there doesn't
17 seem to be anything in this that doesn't fit into the
18 form -- that isn't covered in the form. I think we can
19 just go ahead and --

20 MR. FELDEWERT: In that case, Mr. Examiner,
21 that concludes our presentation.

22 EXAMINER BROOKS: Very good. Case Number
23 15039 re-advertised will be taken under advisement.

24 THE WITNESS: Thank you, sir.

25 EXAMINER BROOKS: And this docket is

1 completed.

2 (Case Number 15039 concludes, 9:20 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15039,
heard by me on 10-17-13.

David K. Bink, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19

20

21

22

23

24

25

Mary C. Hankins

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2013



DECLARATION OF POOLED UNIT
Rustler Breaks 12-24-27 #1H

STATE OF NEW MEXICO

§

KNOW ALL PERSONS BY THESE PRESENTS:

COUNTY OF EDDY

§

This Declaration of Pooled Unit is executed to be effective as of April 1, 2014 by the undersigned parties, who are the owners of an interest in the leasehold estates created under those certain Oil, Gas and Mineral Leases (the "Leases") which are more particularly described on Exhibit "A" attached hereto and incorporated herein by reference for all purposes, or who are the owners of an interest in the mineral estate in the lands described in the Leases, who join in the execution hereof to evidence their consent to the pooling, unitization and combination of the leases and mineral estates herein described.

RECITALS

WHEREAS, each of the Leases authorizes the lessee thereunder to pool, unitize or combine all or a portion of the lands covered thereby with other land, lands, lease, or leases, to form a pooled unit for the exploration, development and production of oil, gas and associated and constituent hydrocarbons from the lands covered by the Leases; and

WHEREAS, the pooling, unitization and combination of the Leases and mineral estates to the extent necessary to form the hereinafter described pooled unit are necessary and advisable in the judgment of the undersigned.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual benefits to be derived by the parties hereto and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned agree as follows:

1. Declaration of Unit. In accordance with the provisions of the Leases, the undersigned do hereby declare, pool, unitize and combine the Leases, including all renewals, extensions, ratifications and amendments thereof, and the lands covered thereby and the mineral estates therein, to the extent necessary to form and create the Unit Area described below. Production from the Unit shall be allocated proportionately among all of the tracts within the Unit in the proportion which the number of surface acres in each of such tracts bears to the total number of surface acres in the Unit.

2. Description of Unit Area. The Unit Area (herein so called) shall consist of 320 Acres, more or less, being the lands more particularly described and depicted on Exhibit "B", which is attached hereto and incorporated herein by reference for all purposes, and the unit shall be limited to the interval and depths lying from the surface of the earth to the base of the Wolfcamp formation **INSOFAR AND ONLY INSOFAR** as to oil, gas, and associated and constituent hydrocarbons produced from a well or wells classified as an oil well or a gas well. The Declaration of Pooled Unit covers all production from the lands described on the attached Exhibit "B" which is produced from any well drilled to the unitized interval underlying the Unit Area.

3. Unit Name. The pooled unit created hereby shall be known as the "Rustler Breaks 12-24-27 #1H"

4. Additional Interest; Consent. In the even the undersigned own any leasehold interest or mineral interest other than those specifically described or referred to herein covering the lands inside the Unit Area, including any unleased mineral interest in lands inside the Unit Area, or any interest for which ratification of the pooled unit created hereby is necessary, such interest or interests are hereby pooled and combing into said pooled unit as hereby declared without the necessity of specifically enumerating such interests or the specific lands covered by such interests or in which they are held.

5. Right to Amend. The undersigned hereby expressly reserve the right, from time to time, to amend this Declaration of Pooled Unit, and the respective terms and provisions hereof, and to change the size and area of, and interests covered by the pooled unit described herein, including without limitation, the power (i) to change, reduce, enlarge or extend the size or configuration of

MATADOR RESOURCES CO
ONE LINCOLN CENTER
5400 LBJ FREEWAY STE 1500
DALLAS TX 75240

the Unit Area; (ii) to include any other formation of formations and any other mineral or minerals therein, thereunder or produced therefrom, all in accordance with the terms and provisions of the Leases; (iii) to include in the pooled unit described herein or in any amendments hereto, oil, gas, and mineral leases, or interests in the lands described therein, covering interests in the Unit Area, which are secured or obtained subsequent to the date hereof, or prior to the date hereof and not included and described herein; and (iv) to include in the pooled unit described herein or in any amendments hereto, full or undivided interests in the Unit Area which are not otherwise included herein by the respective owner of such full or undivided interests.


6. Dissolution of Unit. The pooled unit formed hereby may be dissolved by MRC Permian Company, acting as the Operator of the pooled unit, at any time by an instrument filed for record in Eddy County, NM, after any failure to establish unit production or after cessation of operations upon the pooled unit.

7. Multiple Originals. This instrument may be executed in any number of multiple counterparts, each of which shall have the same force and effect as an original instrument executed by all of the undersigned parties, regardless of whether such counterpart is executed prior to or subsequent to the date hereof or the filing of record of a counterpart hereof. Further, this instrument may not be ratified, consented to or approved by any party, individual, person or entity except upon the express written consent of all the undersigned parties hereto. This Declaration of Pooled Unit, and each counterpart or ratification hereof, shall be binding upon each party who executed the same, and shall have the effect of pooling such party's undivided ownership interest in the leases covered hereby, without regard to whether any other party owning an interest in the Leases or Unit Area may execute this instrument, or a counterpart or ratification hereof.

8. General Provisions. This instrument shall bind, inure to the benefit of, and be exercised by heirs, assigns, and successors in interest of all parties. When the context requires, singular nouns and pronouns include the plural.

EXECUTED by the undersigned parties on the respective dates of acknowledgment hereof, to be effective for all purposes as of the date first above written.

MRC Permian Company

By:  *CR*
Craig N. Adams, Executive Vice President – Land & Legal

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 3rd day of April, 2014, by Craig N. Adams, Executive Vice President – Land & Legal.



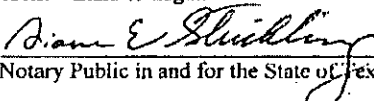

Notary Public in and for the State of Texas

EXHIBIT "A"

1. Oil and Gas Lease(s): All recorded in Eddy County, NM

OIL AND GAS LEASE NO. 1

Date May 25, 2011
Recording Information Eddy County Official Public Records Book 856,
page 239
Lessor George H. Brantley and wife, Nancy Brantley
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 2

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 955
Lessor Mary Jo Ann Wyman
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 3

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 597
Lessor James Clayton Wyman, Jr. and Pauline Evans
Wyman, Trustees of the James Clayton Wyman,
Jr., and Pauline Evans Wyman Revocable Trust
dated February 16, 1996
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 4

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 588
Lessor William F. Beeman
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 5

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 952
Lessor Robert B. Beeman
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 6

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 600
Lessor Mark Allan Beeman
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 7

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 594
Lessor Francis F. Beeman and Bettye J. Beeman
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 8

Date June 8, 2011
Recording Information Eddy County Official Public Records Book 857,
page 591
Lessor Patricia Ann Beeman Allen
Original Lessee DMD LLC

OIL AND GAS LEASE NO. 9	
Date	November 11, 2010
Recording Information	Eddy County Official Public Records Book 837, page 993
Lessor	Sara Baskett, dealing in her separate property
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 10	
Date	October 29, 2010
Recording Information	Eddy County Official Public Records Book 835, page 261
Lessor	Martin Scott Baskett
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 11	
Date	November 11, 2010
Recording Information	Eddy County Official Public Records Book 837, page 990
Lessor	Douglas Baskett, dealing in his sole and separate property
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 12	
Date	November 11, 2010
Recording Information	Eddy County Official Public Records Book 835, page 258
Lessor	Michael D. Baskett, dealing in his sole and separate property
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 13	
Date	November 11, 2010
Recording Information	Eddy County Official Public Records Book 835, page 264
Lessor	Eleanor Baskett Mulder and Antonius Emil Mulder, Individually and as Co-Trustees of the Mulder Living Trust
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 14	
Date	November 11, 2010
Recording Information	Eddy County Official Public Records Book 835, page 267
Lessor	Virginia P. Skinner, dealing in her sole and separate property
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 15	
Date	November 11, 2010
Recording Information	Eddy County Official Public Records Book 837, page 996
Lessor	Roberta Parker, dealing in her sole and separate property
Original Lessee	DMD LLC
OIL AND GAS LEASE NO. 16	
Date	April 5, 2013
Recording Information	Eddy County Official Public Records Book 929, page 1076
Lessor	Ross Duncan Properties, LLC
Original Lessee	MRC Permian Company

OIL AND GAS LEASE NO. 17**Date****Recording Information****Lessor****Original Lessee**

December 9, 2010

Eddy County Official Public Records Book 839,
page 289Muriel M. Diescher, Trustee of the William L.
and Muriel M. Diescher Irrevocable Trust

DMD LLC

OIL AND GAS LEASE NO. 18**Date****Recording Information****Lessor****Original Lessee**

April 22, 2011

Eddy County Official Public Records Book 853,
page 206

T. L. Rees

Yates Petroleum Corporation - 60%, ABO
Petroleum Corporation - 20%, and MYCO
Industries, Inc. - 20%**OIL AND GAS LEASE NO. 19****Date****Recording Information****Lessor****Original Lessee**

July 30, 2013

Eddy County Official Public Records Book 958,
page 0004

Norma Beerman

MRC Permian Company

OIL AND GAS LEASE NO. 20**Date****Recording Information****Lessor****Original Lessee**

August 24, 2013

Eddy County Official Public Records Book 960,
page 363

Word B. Wilson Investments LP

MRC Permian Company

OIL AND GAS LEASE NO. 21**Date****Recording Information****Lessor****Original Lessee**

July 8, 2013

Eddy County Official Public Records Book 960,
page 367

Pecos Bend Royalties, LLLP

MRC Permian Company

OIL AND GAS LEASE NO. 22**Date****Recording Information****Lessor****Original Lessee**

July 16, 2013

Eddy County Official Public Records Book 960,
page 365

McAlister Royalties LLC

MRC Permian Company

OIL AND GAS LEASE NO. 23**Date****Recording Information****Lessor****Original Lessee**

July 30, 2013

Eddy County Official Public Records Book 958,
page 0002

Brandy Michelle Beerman

MRC Permian Company

OIL AND GAS LEASE NO. 24**Date****Recording Information****Lessor****Original Lessee**

April 2, 2013

Eddy County Official Public Records Book 937,
page 997Rolla R. Hinkle III and Rosemary H. Hinkle,
husband and wife

MRC Energy Company

OIL AND GAS LEASE NO. 25**Date****Recording Information**

April 2, 2013

Eddy County Official Public Records Book 937,
page 1000

Lessor	Madison M. Hinkle and Susan M. Hinkle,
Original Lessee	husband and wife MRC Energy Company
OIL AND GAS LEASE NO. 26	
Date	October 15, 2013
Recording Information	Eddy County Official Public Records Book 954, page 900
Lessor	Zia Royalty, LLC
Original Lessee	MRC Permian Company
OIL AND GAS LEASE NO. 27	
Date	October 15, 2013
Recording Information	Eddy County Official Public Records Book 954, page 896
Lessor	Gulf Coast Oil & Gas Company
Original Lessee	MRC Permian Company
OIL AND GAS LEASE NO. 28	
Date	October 15, 2013
Recording Information	Eddy County Official Public Records Book 956, page 638
Lessor	The Beveridge Company
Original Lessee	MRC Permian Company
OIL AND GAS LEASE NO. 29	
Date	October 23, 2013
Recording Information	Eddy County Official Public Records Book 954, page 394
Lessor	Carmex, Inc.
Original Lessee	MRC Permian Company

2. Parties Pooled under attached Order No. R-15039, by the New Mexico Oil Conservation Division; including their assign, successors in interest, heirs, and devisees; whether known or unknown.

Bertha Lorene Osborn, as her separate property, possible claimants to the mineral interest owned by Thomas B. Stribling and wife, Martha Stribling, & possible claimants to the mineral interest owned by Joe H. Beeman.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 15039
ORDER NO. R-13763

APPLICATION OF MATADOR PRODUCTION COMPANY FOR
COMPULSORY POOLING AND UNORTHODOX WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 17, 2013, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 23rd day of October, 2013, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Matador Production Company ("Applicant"), seeks an order pooling all uncommitted interests in the Wolfcamp formation [East Black River-Wolfcamp Gas Pool (97442)] in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM, in Eddy County, New Mexico, to form a standard 320-acre spacing and proration unit ("the Unit") in the East Black River-Wolfcamp Gas Pool (97442).

(3) The Unit is to be dedicated to Applicant's proposed Rustler Breaks 12-24-27 Well No. 1H (API No. not yet assigned), (the "proposed well"), a horizontal well to be drilled at a non-standard surface location 380 feet from the South line and 330 feet from the East line (Unit P) of Section 12 to a non-standard terminus 380 feet from the South line and 330 feet from the West line (Unit M) of Section 12.

(4) Spacing in the East Black River-Wolfcamp Gas Pool is governed by statewide Rule 19.15.15.10.B NMAC, which provides for 320-acre units, with wells to be

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located no closer than 660 feet from the outer boundaries of the unit. The location of the proposed well is unorthodox because the proposed completed interval is less than 660 feet from the outer boundaries of the project area.

(5) Applicant offered testimony at the hearing indicating that

(a) the proposed non-standard location is necessary in order to effectively produce the hydrocarbons in the Wolfcamp formation underlying this Unit; and

(b) Applicant gave notice of this application and of the hearing to all affected persons in offsetting spacing units towards which the proposed unorthodox location would encroach.

(6) No person appeared at the hearing in opposition, or otherwise notified the Division of any objection, to the granting of this application or to the proposed non-standard location.

(7) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(9) There are interest owners in the Unit that have not agreed to pool their interests.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons,

(a) this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit; and

(b) the non-standard location of the proposed well should be approved.

(11) Applicant should be designated the operator of the proposed well and of the Unit.

(12) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

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(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.I.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Production Company, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation [East Black River-Wolfcamp Gas Pool (97442)] in the S/2 of Section 12, Township 24 South, Range 27 East, NMPM, in Eddy County, New Mexico, are hereby pooled to form a standard 320-acre oil spacing and proration unit ("the Unit).

(2) The Unit shall be dedicated to Applicant's proposed Rustler Breaks 12-24-27 Well No. 1H (API No. not yet assigned), (the "proposed well"), a horizontal well to be drilled at a non-standard surface location 380 feet from the South line and 330 feet from the East line (Unit P) of Section 12 to a non-standard terminus 380 feet from the South line and 330 feet from the West line (Unit M) of Section 12.

(3) The unorthodox location of the proposed well is hereby approved.

(4) The operator of the Unit shall commence drilling the proposed well on or before November 1, 2014, and shall thereafter continue drilling the well with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed well on or before the date provided in the immediately preceding paragraph, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate, unless the operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(7) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rules 19.15.13.9 through 19.15.13.11 NMAC, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(8) Matador Production Company (OGRID 228937) is hereby designated the operator of the proposed well and of the Unit.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of

Exhibit "B"
Legal Description
Rustler Breaks 12-24-27 #1H Unit

Township 24 South, Range 27 East, N.M.P.M
Section 12: S/2
Eddy County, New Mexico

RECEPTION NO: 1403535 STATE OF
NEW MEXICO, COUNTY OF EDDY
RECORDED 04/04/2014 3:38 PM
BOOK 0973 PAGE 0986
DARLENE ROSPRIM, COUNTY CLERK



Submit To Appropriate District Office Two Copies District I 1625 N. French Dr., Hobbs, NM 88240 District II 811 S. First St., Artesia, NM 88210 District III 1000 Rio Brazos Rd., Aztec, NM 87410 District IV 1220 S. St. Francis Dr., Santa Fe, NM 87503	State of New Mexico Energy, Minerals and Natural Resources Oil Conservation Division 1220 South St. Francis Dr. Santa Fe, NM 87505	Form C-105 Revised August 1, 2011
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RECEIVED
 MAY 30 2014
 ARTESIA

1. WELL API NO. 30-015-41775	
2. Type of Lease <input type="checkbox"/> STATE <input checked="" type="checkbox"/> FEE <input type="checkbox"/> FED/INDIAN	3. State Oil & Gas Lease No.
4. Reason for filing: <input checked="" type="checkbox"/> COMPLETION REPORT (Fill in boxes #1 through #31 for State and Fee wells only) <input type="checkbox"/> C-144 CLOSURE ATTACHMENT (Fill in boxes #1 through #9, #15 Date Rig Released and #32 and/or #33; attach this and the plat to the C-144 closure report in accordance with 19.15.17.13.K NMAC)	
5. Lease Name or Unit Agreement Name Rustler Breaks 12-24-27	6. Well Number: 001H
7. Type of Completion: <input checked="" type="checkbox"/> NEW WELL <input type="checkbox"/> WORKOVER <input type="checkbox"/> DEEPENING <input type="checkbox"/> PLUGBACK <input type="checkbox"/> DIFFERENT RESERVOIR <input type="checkbox"/> OTHER	
8. Name of Operator Matador Production Company	9. OGRID 228937
10. Address of Operator One Lincoln Centre, 5400 LBJ FWY, Ste 1500 Dallas, TX 75240	11. Pool name or Wildcat Black River; Wolfcamp, East (G)

12. Location	Unit Ltr	Section	Township	Range	Lot	Feet from the	N/S Line	Feet from the	E/W Line	County
Surface:	P	12	24S	27E		380	S	330	E	Eddy
BH:	M	12	24S	27E	M	380	S	330	W	Eddy

13. Date Spudded 12/7/13	14. Date T.D. Reached 01/18/2014	15. Date Rig Released 01/21/14	16. Date Completed (Ready to Produce) 02/22/2014	17. Elevations (DF and RKB, RT, GR, etc.) 3090' GR
18. Total Measured Depth of Well 14620'	19. Plug Back Measured Depth 14523'	20. Was Directional Survey Made? YES	21. Type Electric and Other Logs Run PE GR/CNL	

22. Producing Interval(s) of this completion - Top, Bottom, Name 10022-14511' Wolfcamp	
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23. CASING RECORD (Report all strings set in well)					
CASING SIZE	WEIGHT LB/FT.	DEPTH SET	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
16	75	400	20	200	0
10.75	40.5	2500	13.5	2100	0
7.625	29.7	10100	9.75	900	0
4.5	15.1	15000	6.75	475	0

24. LINER RECORD				25. TUBING RECORD		
SIZE	TOP	BOTTOM	SACKS CEMENT	SCREEN	SIZE	DEPTH SET

26. Perforation record (interval, size, and number) 10022 - 14511' (665 holes @ 0.41")	27. ACID, SHOT, FRACTURE, CEMENT, SQUEEZE, ETC. DEPTH INTERVAL AMOUNT AND KIND MATERIAL USED 10022 - 8,559,640 lbs 100 mesh & 14511' 30/50 white sand
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28. PRODUCTION							
Date First Production 02/22/2014		Production Method (Flowing, gas lift, pumping - Size and type pump) FLOWING			Well Status (Prod. or Shut-in) PROD		
Date of Test 03/04/14	Hours Tested 24	Choke Size 24/64	Prod'n For Test Period	Oil - Bbl 436	Gas - MCF 3306	Water - Bbl. 1889	Gas - Oil Ratio 7583
Flow Tubing Press. 0	Casing Pressure 3000	Calculated 24-Hour Rate	Oil - Bbl. 436	Gas - MCF 3306	Water - Bbl. 1889	Oil Gravity - API - (Corr.) 51.0	

29. Disposition of Gas (Sold, used for fuel, vented, etc.) GAS FLARED DURING TEST BUT IS NOW TO SALES	30. Test Witnessed By Richard Martinez
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31. List Attachments LOG, DIRECTIONAL SVS, PLAT	
32. If a temporary pit was used at the well, attach a plat with the location of the temporary pit.	
33. If an on-site burial was used at the well, report the exact location of the on-site burial:	

Latitude _____ Longitude _____ NAD 1927 1983		
I hereby certify that the information shown on both sides of this form is true and complete to the best of my knowledge and belief		
Signature	Printed Name Adam Lange	Title Completions Engineer
E-mail Address alange@matadorresources.com		Date 5/28/14

INSTRUCTIONS

This form is to be filed with the appropriate District Office of the Division not later than 20 days after the completion of any newly-drilled or deepened well and not later than 60 days after completion of closure. When submitted as a completion report, this shall be accompanied by one copy of all electrical and radio-activity logs run on the well and a summary of all special tests conducted, including drill stem tests. All depths reported shall be measured depths. In the case of directionally drilled wells, true vertical depths shall also be reported. For multiple completions, items 11, 12 and 26-31 shall be reported for each zone.

INDICATE FORMATION TOPS IN CONFORMANCE WITH GEOGRAPHICAL SECTION OF STATE

MD/TVD		Southeastern New Mexico		Northwestern New Mexico	
T. Anhy		T. Canyon		T. Ojo Alamo	T. Penn. A"
T. Salt 803' / 803'		T. Strawn		T. Kirtland	T. Penn. "B"
B. Salt 2288' / 2288'		T. Atoka		T. Fruitland	T. Penn. "C"
T. Yates		T. Miss		T. Pictured Cliffs	T. Penn. "D"
T. 7 Rivers		T. Devonian		T. Cliff House	T. Leadville
T. Queen		T. Silurian		T. Menefee	T. Madison
T. Grayburg		T. Montoya		T. Point Lookout	T. Elbert
T. San Andres		T. Simpson		T. Mancos	T. McCracken
T. Glorieta		T. McKee		T. Gallup	T. Ignacio Otzie
T. Paddock		T. Ellenburger		Base Greenhorn	T. Granite
T. Blinberry		T. Gr. Wash		T. Dakota	
T. Tubb		T. Delaware Sand 2465' / 2465'		T. Morrison	
T. Drinkard		T. Bone Springs 5895' / 5895'		T. Todilto	
T. Abo		T. 1ST BS SAND 6897'		T. Entrada	
T. Wolfcamp 9207' / 9198'		T. 6895'		T. Wingate	
T. Penn		T. 2ND BS SAND 7638' /		T. Chinle	
T. Cisco (Bough C)		T. 7632'		T. Permian	
		T. LAMAR 2417' / 2417'			

OIL OR GAS

OIL OR GAS
SANDS OR ZONES

No. 1, from to
No. 2, from to
No. 3, from to
No. 4, from to

IMPORTANT WATER SANDS

Include data on rate of water inflow and elevation to which water rose in hole.

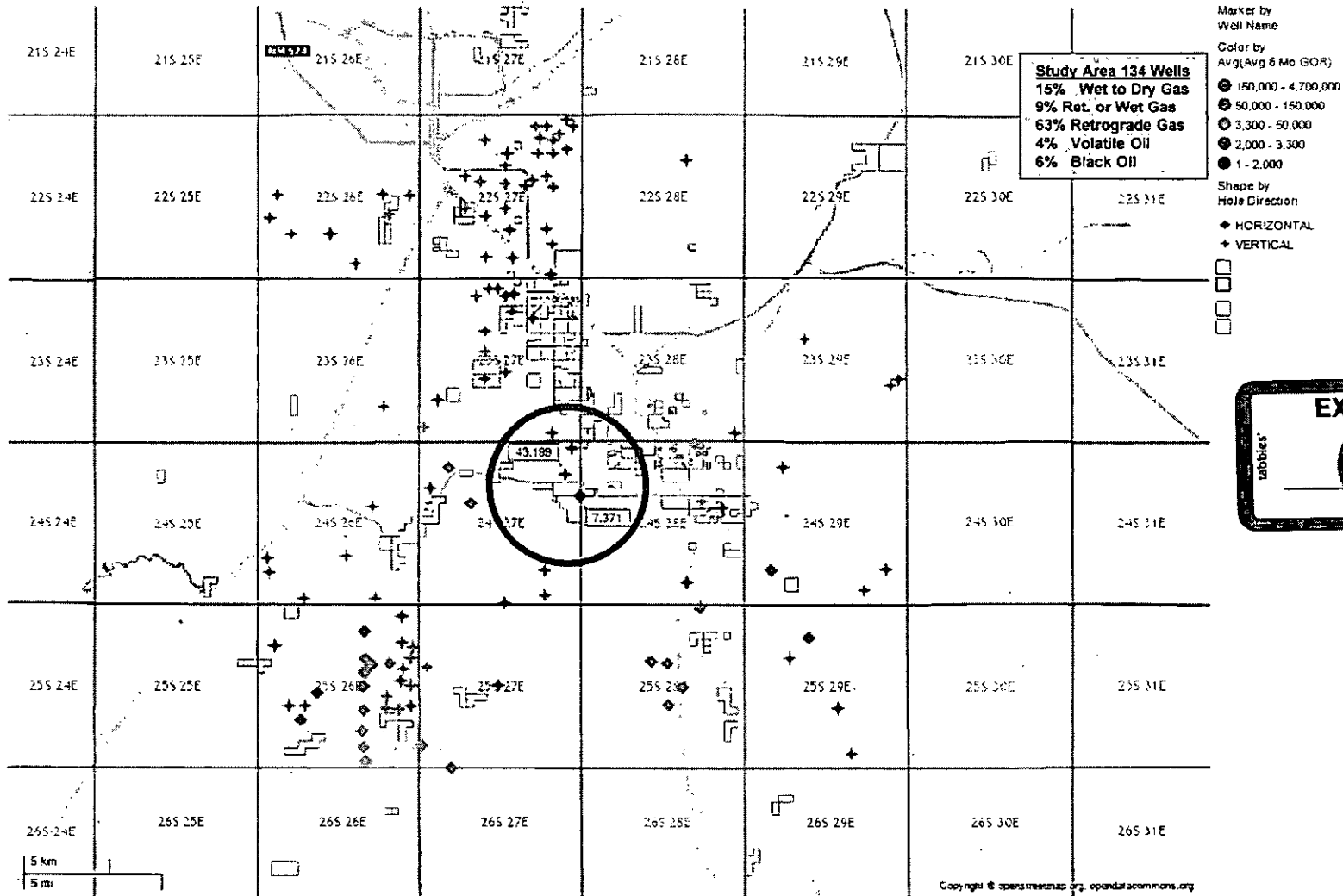
No. 1, from to feet.....
 No. 2, from to feet.....
 No. 3, from to feet.....

LITHOLOGY RECORD (Attach additional sheet if necessary)

From	To	Thickness In Feet	Lithology

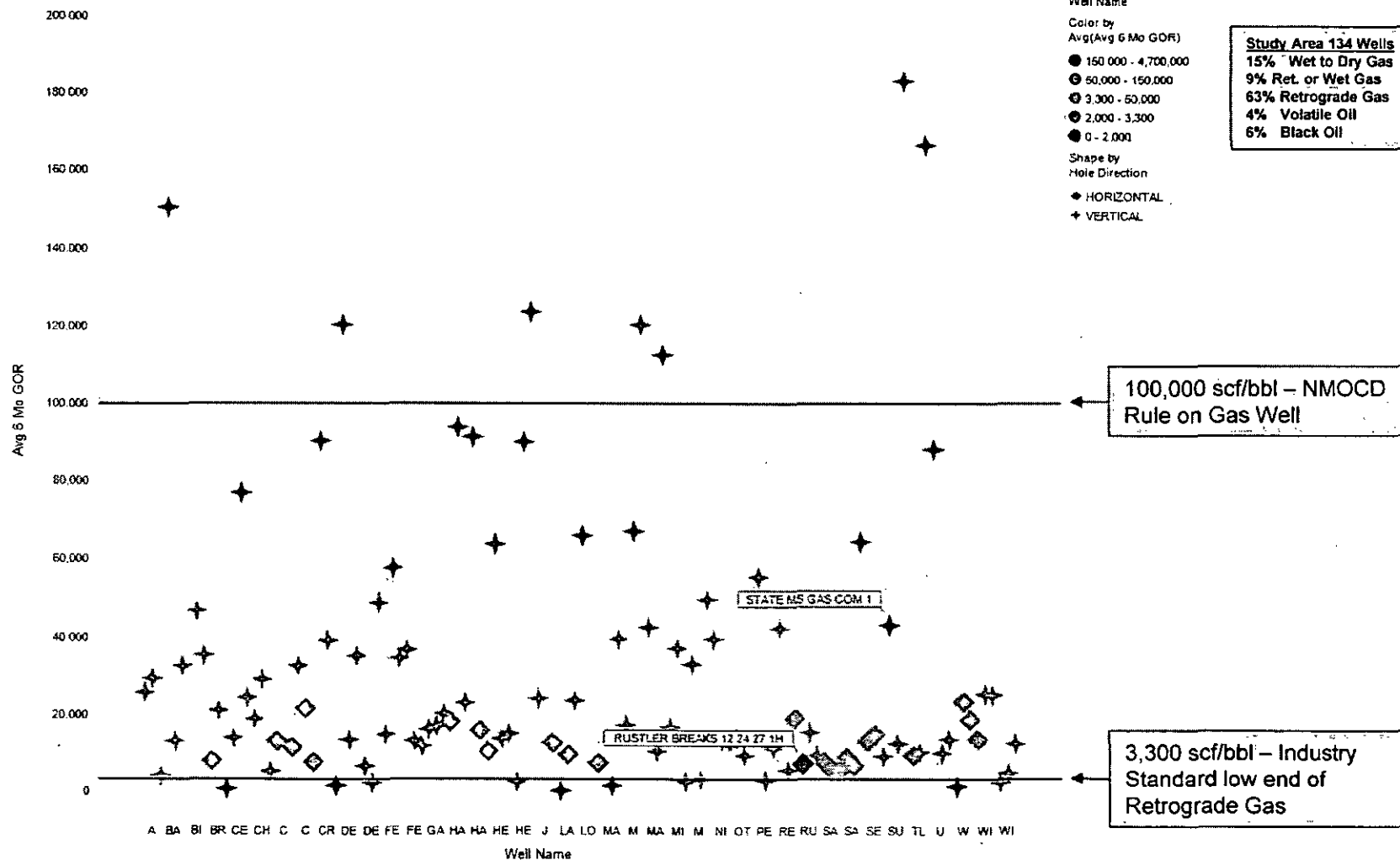
Rustler Breaks Area Study; Wells in T24SR-28E Sect 12

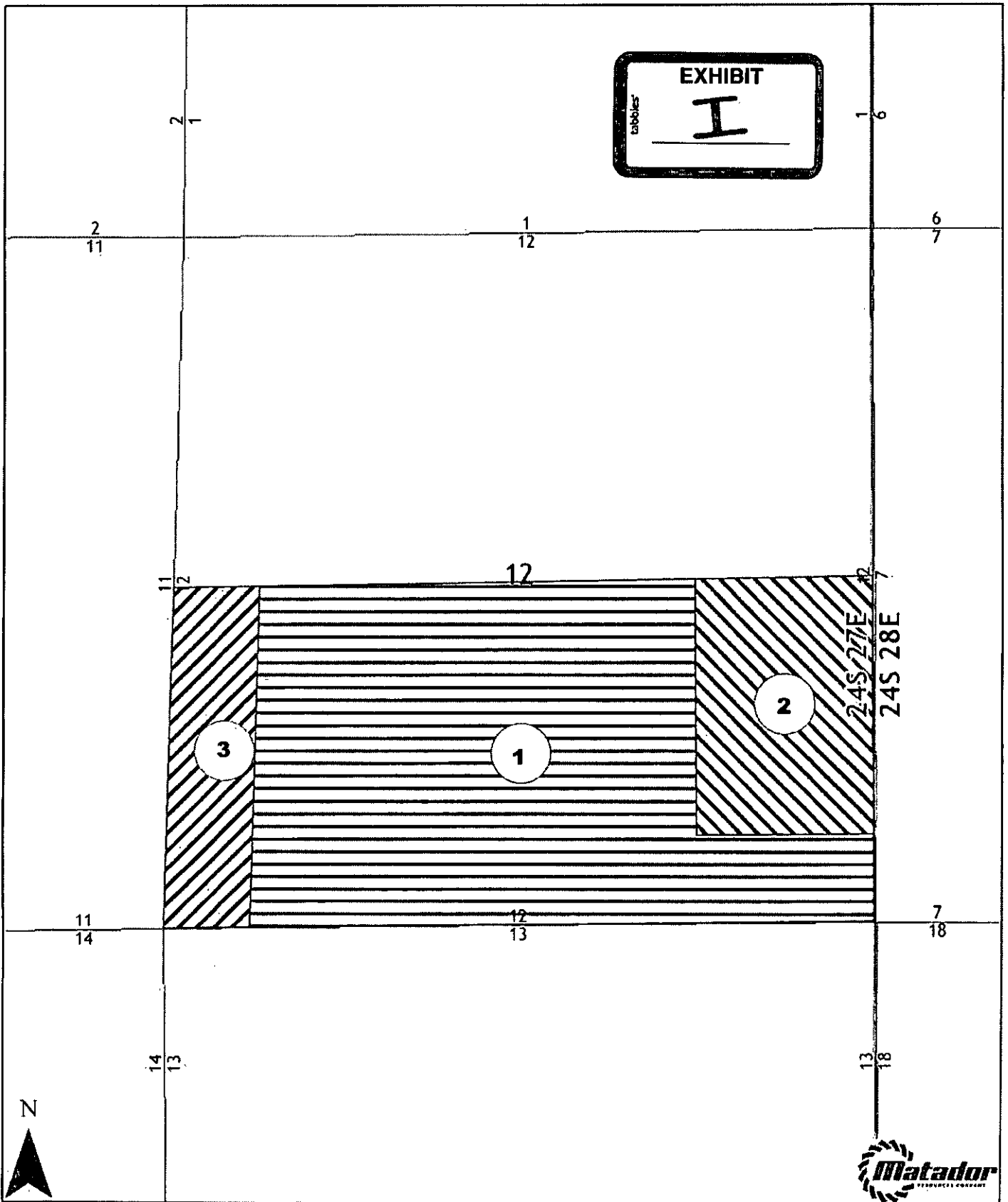
Map Chart



6 Month Cumulative GOR – All Study Wells

Avg 6 Mo GOR vs. Well Name





0 500 1,000 2,000 Feet

1 inch = 1,000 feet

Map Prepared by: agreen
 Date: November 5, 2015
 Filename: Exhibit_Plot_1224527E
 Projection: NAD27 State Plane New Mexico East FIPS 3001
 Sources: IHIS; TNIRIS; ESRI; USDA NAIP Imagery;



Southeast New Mexico