

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

**APPLICATION OF MATADOR PRODUCTION
COMPANY FOR A NON-STANDARD SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.**

Case No. 15363

**Jalapeno Corporation and Yates Energy Corporation
Hearing Exhibit List, September 29, 2015**

No.	Date	Exhibit
1	08/17/15	H. Yates/Jalapeno to V. Singleton/Matador re information needed from Matador
2	09/18/14	HEYCO Airstrip Prospect proposal to drill Airstrip 31 State Com #2H – AFE \$7,317,030 – Bone Springs
3	03/24/15	MRC Airstrip State Com 31-18S-35E #201H Well Proposal – Wolfcamp (\$9,099,800)
4	04/28/15	H. Yates/ Jalapeno to Melissa Randle/MRC Delaware Resources LLC re unwilling to execute JOA as proposed, problems with AFE elevated costs
5	07/2015	Matador Investor Presentation, July 2015
5A	07/2015	Hedging Profile, p. 58
5B	07/2015	WTI Oil Price and Service Prices, p. 65
5C	07/2015	Permian Basin Results, p.16
6	08/27/15	Matador Response to Subpoena
7		Demo – What Risk Did the Legislation Intend to be Covered
8		Demo – Wells that penetrate the Wolfcamp formation
9		Demo – Total Risk 20.1%
10	08/05/15	Matador Resources' Q2 2015 Results – Earnings Call Transcript
10A	08/05/15	Ryan London Excerpts from Matador Resources' Q2 2015 Results – Earnings Call Transcript
10B	08/05/15	Matt Hairford Excerpts Matador Resources' Q2 2015 Results – Earnings Call Transcript
11		Chaparral #3 and #4H Decline Curves
12		Matador Maps & Cross Section - Airstrip State Com #201H
13		Matador Chart – Ranger Area Second Bone Spring Wells Performing Above Expectations
14	01/31/14	Application for Permit to Drill Airstrip 31 State Com #2H

Jalapeno Corporation

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Ph: 505-242-2050 fax: 505-242-8501

August 17, 2015

Van Singleton
Matador Production Company
Suite 1500
One Lincoln Centre,
5400 LBJ Freeway,
Dallas, Texas 75240

Dear Van:

In the course of our conversation on Thursday you mentioned that our Motion for Continuance stated that we were going to request a subpoena from the OCD in order to secure documents from Matador. You suggested that we just send you a list of needed information without going through the subpoena process. I appreciate that offer. Consequently, I attach to this letter a list of the documents we need from Matador related to its force-pooling application. If some of the requested information is more readily available to Matador than other information, I request that it be supplied to us as Matador retrieves it. However, I would request that all the information be supplied to us by the last day of this month which is just a few days before the hearing date.

Our conversation occurred because you called and then texted me to say that you have been gone for a month and that you hoped we could resolve the Airstrip pooling matter which got off-track in your absence. I returned your call. I agree that this matter is off-track.

As you are aware we received in March 2015 Matador's AFE from Melissa Randal (Landman for Matador) together with a letter which demanded that we respond within 15 days and immediately pay our proportionate share of the Airstrip well -- a cost which had grown by approximately \$1.7 million since Heyco's earlier AFE for a well at the same location. Melissa's letter also included a Joint Operating Agreement (JOA) which contained a 100%/300% non-consent penalty provision. Needless to say, both my brother, Fred Yates, and I found the tone of Melissa's letter to be particularly inappropriate. We thought that Matador, Jalapeno and Yates Energy all had reason to start their relationship on friendly, rather than hostile, terms.

Both in my written response to Melissa and in subsequent conversations with your subordinates, I have explained that I would not sign a JOA for horizontal drilling which contains a non-consent provision which, though customary during the era of vertical wells, is now inappropriate because it reflects a penalty which is unrelated to the actual risk most drillers are taking when they drill horizontal wells in the Delaware Basin. I suggested changing the non-

consent provision in Matador's proposed JOA to make those terms more reflective of the actual risk of drilling in the area. Matador rejected any change to the non-consent terms.

However, because we were trying to start our relationship with Matador in a cooperative way, I suggested terms of yet another deal which I thought would allow Matador to drill its Airstrip well, even though I would not sign its proffered JOA, and even though I believe Matador's AFE is unreasonably high. I offered to trade our acreage under the 154.28 spacing unit to Matador for \$5,000 a net acre (the same price Matador has agreed to pay Yates Energy) if Matador would trade to Jalapeno some Chaves County acreage which it had fortuitously inherited in its Heyco merger. (The offer price for the Chaves County acreage was the same price Jalapeno recently paid another joint owner of the same Chaves County acreage.) My thinking was that if Matador itself owned our acreage within the spacing unit, neither the JOA issue nor the AFE issue would arise.

However, when Sam Pryor, another Matador Landman, called to discuss the exchange offer he suggested that though the exchange seemed to be fair, Matador still wanted me to sign the offending JOA as to acreage outside of the spacing unit. Of course, I refused. Negotiations broke down. Until you and I talked Thursday I assumed the deal is "off-track," not because there is a dispute as to the spacing unit regarding which Matador has filed the force-pooling application, but because I won't sign a JOA which covers our ownership in acreage outside of the spacing unit which is being force-pooled.

In our conversation on Thursday you suggested that there is an additional problem with my acreage trade proposal. Because one of my brothers, George, is on Matador's board of directors, and Matador is a public company, Matador cannot make a different deal with me than it makes with other parties. This seems to me to place Matador in a particularly difficult position because, before Matador initiates a force pooling action, it is supposed to negotiate in good faith to resolve the issue. Yet, Matador would be limited to communicating to me what the deal would be, because others have agreed to it. I doubt that such communication would rise to the level of the required negotiations. (Keep in mind that depending on the circumstances, the "others" may have no knowledge about the oil industry, no knowledge about the actual risk of the proposed drilling and no capacity to examine an AFE.)

In a third attempt to get our dispute resolved, on Thursday I suggested yet another possible trade which would allow Matador to incorporate our acreage within a JOA covering all of Section 31. In other words, it would resolve the problem Sam Pryor raised. I suggested that Matador might buy all our net acreage in Section 31 from surface to the base of the Wolfcamp under a term agreement equivalent to that it has negotiated with Yates Energy. (As I understand that Term Agreement, Matador would pay \$5,000 a net acre and would be subject to a continuous drilling agreement to hold the acreage. Jalapeno would retain an ORR equal to the difference between existing burdens and 25%. The term agreement also would contain a horizontal Pugh Clause.) Matador could then enter our acreage into a JOA containing non-consent terms of its choosing. However, my stipulation was that as to any acreage returned to Jalapeno as a consequence of the termination of Matador's rights to it, the acreage would be subject to a 100%/150% non-consent provision rather than the 100%/300% provision contained

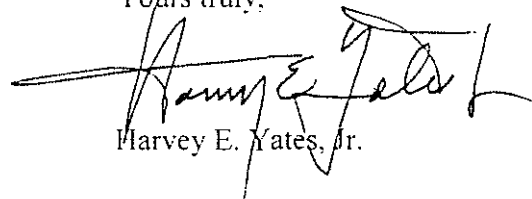
in Matador's proposed JOA. As in the earlier offer, Matador would sell to Jalapeno its interest in the Chaves County acreage: W/2 of Sec. 17 of 9S, 27E.

Thus, Matador has from me three offers related to its proposed drilling:

- It can simply change the terms of the non-consent provisions in its proposed JOA to 100%/150%. Jalapeno will non-consent as to the drilling of the Airstrip Wolfcamp well, but may well later consent to Bone Spring horizontal wells or even later Wolfcamp wells within acreage covered by the JOA depending, of course, on the then posted price of oil, or
- It can trade its Section 17 Chaves County acreage for our interest in the Airstrip spacing unit, at the earlier specified prices. It could then place its newly acquired interest in the Airstrip acreage into its JOA and drill the well, or
- It can purchase Jalapeno's acreage within Sec. 31 of 18S, 35E on a term assignment and convey to us its acreage in W/2 Sec. 17, 9S, 27E. as discussed above.

I think the record shows that I have bent over backward in an attempt to reach a deal with Matador. However, because Matador filed a force-pooling action against us, we have had to employ attorneys, and they are costly. My preference among the deals is the first one above -- that Matador simply change the non-consent provisions of its JOA -- but, I am willing to enter into any of the three deals this week. After that, we will have piled so much legal time into preparation for the OCD Hearing, the follow-up OCC hearing, and, if necessary, the District Court case, that I'm not sure that any of the proposed settlement offers will make sense any more. If we are going to make a deal, we should do it now. Thanks for reaching out to me.

Yours truly,

A handwritten signature in black ink, appearing to read "Harvey E. Yates, Jr.", with a stylized, cursive script.

Harvey E. Yates, Jr.

ATTACHEMENT TO LETTER TO VAN SINGLETON
INFORMATION NEEDED FROM MATADOR

INFORMATION AS TO DRILLING AND COMPLETION PLANS: As to the proposed Airstrip 31 RN State Com. 201H (hereinafter Airstrip 201H) we request the following information:

- Documents specifying how far below the top of the Wolfcamp formation Matador's proposed lateral will be.
- Documents related to whether the lateral will cut the Bone Spring formation as well as the Wolfcamp formation.
- Documents having to do with whether Matador's frac job will penetrate the Bone Spring formation as well as the Wolfcamp formation.

PROJECTED RECOVERY FROM AIRSTRIP WELL: Please provide any documents in Matador's possession which estimate or project the ultimate recovery from the Airstrip 201H.

WOLFCAMP DST: Heyco drilled the Southeast Airstrip # 1 in Unit N of Section 31 of 18TS, 35RE. (API # 3002527618) and completed it in the Morrow. In the course of that drilling effort Heyco caused a drill-stem test of the Wolfcamp formation. Please provide a copy of the drill stem test results. Additionally, please provide all documents having to do with Matador's lateral in the Airstrip 201H and its proposed frac-job suggesting whether either would penetrate the Wolfcamp at the approximate depth tested in the earlier Heyco well.

WHAT HORIZONS IS MATADOR ATTEMPTING TO FORCE-POOL?: Please provide documents clarifying the horizon which Matador is attempting to force-pool. See below:

- In the heading paragraph Matador states: "*(ii) pooling all mineral interests in the Wolfcamp formation underlying the non-standard unit...*" (emphasis added)
- And, Matador's plea asks that the Division enter an order "*B Pooling all mineral interests in the Wolfcamp formation underlying the W1/W1/2 of Section 31.*" (emphasis added)
- However, at paragraph 2. Matador states, "*Applicant seeks to dedicate the W1/2W1/2 ... to form a non-standard 154.28 acre oil spacing and proration unit (project area) for any formations and/or pools developed on 40 acre spacing within that vertical extent.*" (emphasis added)

MATADOR'S ACTUAL RISK: Matador asks that a 200% risk penalty be applied to the Airstrip 201H. Please provide all documents evidencing that 200% is equivalent to the actual risk Matador would encounter if it drills the Airstrip 201H.

INFORMATION WHICH MATADOR HAS CONVEYED TO OTHERS REGARDING ITS PERMIAN BASIN RISK AND REWARDS: Please provide all documents conveyed to Matador's board of directors, shareholders, lenders, analysts and reports to the Securities Exchange Commission dealing with the risk and reward of Matador's drilling on its Permian Basin acreage in New Mexico.

SPECIFIC WELL INFORMATION: For each of the following wells please provide all documents having to do with risk and reward, cost of drilling and completing, and success or failure related to the well:

- PICKARD STATE No. 002H, API Number: 3002541614,
- JIM ROLFE 22 18 34 RN STATE No. 131H, API Number: 3002541889,
- JIM ROLFE 22 18 34 RN STATE No. 131Y, API Number: 3002542057,
- PICKARD STATE 20-18S-34E RN#121H, API Number: 3002541614,
- CIMMARON 16-19S-34E RN #134H
- TIGER 14 24s 28e rb#204h. 1 API# is(30-015-43087
- AIRSTRIP 201H API Number: 3002540397.
- All other horizontal wells drilled by Matador in Southeast New Mexico

HEDGING AND FIXED PRICE CONTRACTS: Please provide documents related to the actual price Matador itself will receive for oil and gas production from the Airstrip 201H including documents evidencing whether Matador has or has not hedged the production it would receive from the Airstrip 201H and, additionally, whether it has entered into any fixed price contract which would affect the price it would receive for oil or gas from the Airstrip 201H. (Below, where I reference "hedged dollar price" or "hedged fund dollars" please also provide information as to any fixed price contract payments.)

- If Matador is hedged, please provide documents evidencing whether the revenue Matador would receive from a force-pooled party's former proportionate share of the production, would be paid to Matador in hedged fund dollars -- that is, in the per barrel price for which has Matador hedged.
- If Matador would be paid at the hedged price for the force-pooled parties' former interest, please provide all documents, including risk analyses, specifying whether the 200% penalty which Matador has asked the OCD to impose was calculated in the analyses at the hedged dollar price or at the actual oil price which is expected to be received for the produced oil or gas.
- Please provide all documents which relate to whether Matador plans to have the recoupment of the penalty, which would be imposed on the parties which are force-pooled, "calculated" at the hedged price or in the actual price then prevailing for the oil and when it is sold?

RIG COSTS: Matador's predecessor, Heyco, provided Jalapeno Corporation and Yates Energy an AFE for the drilling of a Bone Spring well at the same location as now proposed by Matador. Both Jalapeno and Yates Energy consented to participate in Heyco's well. However, Matador's AFE is approximately one million seven hundred thousand dollars higher than the Heyco AFE agreed to by Jalapeno and Yates Energy. In the meantime the cost of drill rigs has plummeted as drill rigs in the Permian Basin have been stacked. However, public information suggests that Matador owns its own rigs or has leased rigs to utilize in its Permian Basin drilling.

- Please provide all documents related to any drilling contract or ancillary related agreement which affects, or would tend to affect, the cost of drilling the Airstrip 201H or which evidence the reason for Matador's high AFE cost for the Airstrip 201H:
- Please provide all documents which explain the reason for the higher cost of drilling the Matador well than AFE'd earlier for the proposed Heyco well even though since the earlier AFE rig costs and other service prices have plummeted;
- If Matador intends to drill the Airstrip 201H with its own rig or with a leased rig, if Matador intends to use its own equipment otherwise or if Matador intends to dispose of salt water in its own disposal wells, please provide copies of all accounting or other documents which reveal both Matador's likely actual cost of such operations as well as the cost it intends to bill non-operators for such operations.

ESTIMATED ULTIMATE RECOVERIES: Please provide all documents in Matador's possession which estimate the ultimate recovery which Matador expects from wells it has drilled, has submitted an application to drill or will propose to drill in the following townships which surround the proposed Airstrip 201H: T18S, R34E; T18S, R35E; T19S, R34E and T19S, R35E.