

**MATADOR PETROLEUM CORPORATION**

SUITE 158, PECAN CREEK  
8340 MEADOW ROAD  
DALLAS, TEXAS 75231-3751  
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Mark Virant  
District Landman

Writer's Direct Line  
(214) 987-7156

October 12, 2000

Mr. Ray M. Vaden  
Chevron USA Inc.  
P.O. Box 1150  
Midland, Texas 79702-1150

Re: Indian Basin Area  
N/2 Section 20, T-22-S, R-23-E  
Eddy County, New Mexico

Dear Ray:

Matador Petroleum Corporation ("Matador") is prepared to spud a well on the above captioned lands which are currently owned by Chevron USA Inc. ("Chevron") to a depth of 8,200' to test the Penn formation within 120 days of execution of a formal agreement.

Matador hereby requests your consideration of one of the following options:

Option 1

1. Matador will pay Chevron \$500 per net mineral acre. Chevron will retain an overriding royalty on their leasehold equal to the differences between 25% and existing lease burdens on the referenced lands.

Option 2

1. Chevron will retain an overriding royalty on their leasehold equal to the difference between 30% and existing lease burdens on the referenced land.

Option 3

1. Chevron will assign all of their right, title and interest in the referenced lands to Matador delivering an 87.5% NRI. Chevron will have the option to backin for a 50% WI at payout.

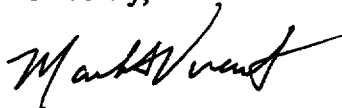
BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12594 Exhibit No. 4  
Submitted By:  
*Matador Petroleum Corp.*  
Hearing Date: February 22, 2001

Option 4

1. Chevron will grant Matador a one (1) year term assignment covering fifty percent (50%) of its leasehold in the referenced lands, with said term assignment reserving an overriding royalty interest equal to the difference between existing lease burdens and 25%. In exchange for the term assignment, Matador will agree to provide Chevron with a free look to casing point to participate for its 50% share of the cost to drill the proposed test well. If Chevron elects to proceed and attempt to complete the well, it is agreed that Chevron will immediately reimburse Matador for fifty percent (50%) of all of the costs incurred to casing point. If Chevron does not elect to participate in the completion of the well and Matador elects to proceed and attempt to complete, Chevron will grant Matador a one (1) year term assignment covering Chevron's remaining 50% interest in the referenced lands reserving an overriding royalty interest equal to the difference between existing lease burdens and 25%.

All interests retained by Chevron will be subject to proportionate reduction. This offer will expire at the close of business on October 17, 2000. Ray, we appreciate your consideration of our offer and please be advised we would be willing to discuss any other options which might meet your needs.

Sincerely,



Mark A. Virant

MAV/ks