



Santa Fe Energy Resources, Inc.

March 31, 1998

TO: Working Interest Owners
(See Attached List)

Re: Well Proposal and Farmout Request
Benson "24" Fed. COM #1 Well
1,980' FSL & 1,980' FWL
Section 24, T-18-S, R-30-E
Eddy County, New Mexico
Benson Prospect - SFER #NM-0937

Gentlemen:

Reference is made to my letter to Yates Petroleum Corporation dated March 2, 1998, a copy of which is attached, proposing the formation of a 960 acre working interest unit consisting of All Section 24 and the N/2 of Section 25, T-18-S, R-30-E for the purpose of drilling a Morrow test in the W/2 of said Section 24. This proposal was based upon Yates being named Operator and conditioned upon operations being commenced on or before June 1, 1998. We have since examined title to the W/2 of Section 24 and now propose the formation of this working interest unit to each of you.

While the working interest unit remains our preferred objective, should a timely consensus not be reached regarding the formation of the unit, Santa Fe Energy Resources, Inc. (Santa Fe) proposes to proceed with drilling the well and respectfully requests that you agree to either participate for your proportionate part of the hereinafter described Morrow test based upon an anticipated 320 acre W/2 proration unit, or farmout your interest in the W/2 of said Section 24 to Santa Fe based upon the following general terms:

1. On or before June 1, 1998, Santa Fe will commence, or cause to be commenced, the drilling of a Test Well on the W/2 of Section 24, T-18-S, R-30-E, Eddy County, New Mexico (Farmout Acreage). The Test Well will be drilled at the captioned location to a depth of 12,000', or to a depth sufficient to adequately test the Morrow Formation, whichever is the lesser. The only penalty for failing to drill the Test Well will be the forfeiture by Santa Fe of the right to receive the assignments described below.
2. Upon completion of the Test Well as a well capable of producing in paying quantities, you will assign to Santa Fe all of your rights, title and interest in that part of the Farmout Acreage which is included in the proration unit established for the Test Well pursuant to NMOC rules and regulations reserving a proportionately reducible overriding royalty interest equal to the difference by which 25% exceeds existing lease burdens.
3. Santa Fe will have the option, but not the obligation, to earn any remaining Farmout Acreage not included in the proration unit for the Test Well through continuous development with no more than 180 days between wells.
4. At Payout of each earning well drilled pursuant to the Farmout Agreement, you will have the option to convert your retained overriding royalty to a proportionately reduced 25% Working Interest. The relationship of the parties thereafter will be governed by a mutually acceptable AAPL (1982)

Model Form Operating Agreement naming Santa Fe as Operator which will provide for, among other things, a 300% non-consent penalty.


If the proposed Test Well is drilled on a 320 acre W/2 proration unit basis, Santa Fe proposes to drill it to the same depth, and at the same location as previously described. In this regard, enclosed for your review are two (2) copies of the AFE Well Cost Estimate for this well. An Operating Agreement is being prepared and will be forwarded to you in the near future.

Upon your consideration of this proposal, please indicate your election by executing and returning to the undersigned one copy of this letter. Should you elect to participate for your proportionate interest based upon a W/2 proration unit, please also execute and return one (1) copy of the enclosed AFE Well Cost Estimate along with your geological information requirements and the names of personnel to receive reports. Should you elect to Farmout, we would be happy to prepare and forward to you a formal Farmout Agreement for your review and execution.

Thank you for your consideration of this proposal. If you have any questions, my direct number is (915) 686-6712.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.


Steven J. Smith
Senior Staff Landman

_____ We **agree to join** in the formation of the 960 acre working interest unit as outlined in the attached March 2, 1998 proposal letter.

_____ We **elect to Farmout** based the general terms stated herein.

_____ We **elect to participate** in the Benson "24" Federal #1 Well for our proportionate interest as proposed herein.

Name of Person/Company

By: _____
Title: _____
Date: _____

WORKING INTEREST OWNERS
Benson "24" Fed. COM #1 Well
W/2 Section 24, T-18-S, R-30-E, N.M.P.M.
Eddy County, New Mexico

- | | |
|---|---|
| 1. Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
ATTN: Mr. Robert Bullock | 8. Hanson Operating Company, Inc.
P. O. Box 1515
Roswell, New Mexico 88205-1515
ATTN: Mr. Carl A. Schellinger, Agent |
| 2. John A. Yates, Individually
and as Personal Representative of the
Estate of Peggy A. Yates, deceased
105 South Fourth Street
Artesia, New Mexico 88210 | 9. Enron Oil & Gas Company
P. O. Box 2267
Midland, Texas 79702-2267
ATTN: Mr. Patrick J. Tower |
| 3. S. P. Yates and Estelle Yates, H/W
105 South Fourth Street
Artesia, New Mexico 88210 | 10. Roger T. Elliott &
Hollyhock Corporation
3907 Crestgate
Midland, Texas 79707 |
| 4. S. P. Yates,
Frank W. Yates, Jr. and
B. W. Harper,
Personal Representatives of the
Estate of Lillie M. Yates, deceased
105 South Fourth Street
Artesia, New Mexico 88210 | 11. Todd M. Wilson &
Cannon Exploration Company
3608 S. County Rd. # 1184
Midland, Texas 79705 |
| 5. Sharbro Oil Ltd. Co.
P. O. Box 840
Artesia, New Mexico 88211-0840 | 12. Rio Pecos Corporation
4501 Green Tree Blvd.
Midland, Texas 79707 |
| 6. Cibola Energy Corporation
P. O. Box 1668
Albuquerque, New Mexico 87103 | 13. Pathfinder Exploration Co.
500 N. Loraine, Suite 1070
Midland, Texas 79701
ATTN: Mr. Scott E. Wilson |
| 7. Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88202-1933 | 14. TARA-JON Corp.
6003 Meadowview Lane
Midland, Texas 79707 |