

Robert E. Landreth
OIL AND GAS EXPLORATION

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August 20, 1998

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12043 Exhibit No. 5
Submitted By:
Santa Fe Energy Resources
Hearing Date: September 17, 1998

Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1330
Midland, TX 79701
ATTN: Mr. Steven J. Smith

RE: Proposed 13,700' Morrow Test
Rio Blanco "4" Fed COM #1 Well
1980' FNL & 1980' FWL
Section 4, T-23-S, R-34-E
Lea County, New Mexico
RIO BLANCO PROSPECT-NM0964

Dear Mr. Smith:

Reference is made to your letter of July 14, 1998, captioned subject.

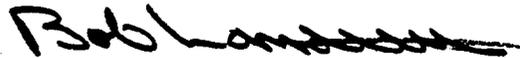
This letter serves to summarize the counter-proposal which I made to you verbally on August 4, 1998, while I was out of town.

1. My leasehold position in Section 4 is burdened by an unrecorded agreement with Scott W. Tanberg, under which Mr. Tanberg is entitled to a 2 % overriding royalty interest, giving him a 1 % of 8/8 ORRI in Santa Fe's proposed N/2 proration unit.
2. I am interested in joining in your proposed well for 1/8 of 8/8 working interest and am willing to farm out the balance of my working interest on the basis of a delivered 75% NRI, with the option to covert 6.75% ORRI to a 30% working interest, subject to proportionate reduction.
3. We are not interested in granting an option on our HBP rights in the S/2 Section 4 at this time.
4. We previously submitted to Santa Fe detailed geologic work (including seismic data) on this section and area in 1993 when we were attempting to put together the drilling of a well. Is Santa Fe willing to extend the same courtesy to us at this time?

You indicated by telephone yesterday that Santa Fe is unwilling to accept the above farmout terms. You also indicated that you are not in a position to offer me the option of joining for a portion of my interest and farming out the balance. If that is Santa Fe's final position, I would appreciate knowing as soon as possible, as I will probably attempt to interest one or more companies in a farmout of a portion of my interest.

Based on prior negotiations between us in this area, I believe that any future proposals/counter-proposals between us should be tendered in writing.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Landreth", with a stylized flourish at the end.

Robert E. Landreth