

Robert E. Landreth
OIL AND GAS EXPLORATION

305 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

915) 684-4781

FAX# (915) 684-4783

September 14, 1998

FACSIMILE: 915/686-6712

Santa Fe Energy Resources, Inc.
550 W. Texas Ave.
Suite 1330
Midland, Texas 79701

ATTN: Mr. Steve Smith

RE: Proposed Rio Blanco "4" Fed COM #1
Lea County, New Mexico

Dear Steve:

I have reviewed your proposed Farmout Agreement, received today, in the above captioned matter, and submit the following for your consideration:

- I. Enclosed please find copies of Assignments of Overriding Royalty Interest into Scott W. Tanberg on our leases in the proposed N/2 Section 4 spacing unit, in line with our prior representations and correspondence concerning Mr. Tanberg's contractual Overriding Royalty Interest. These were sent to the BLM and to Lea County for the recording last Thursday.
- II. I believe I would prefer to modify the Farmout Agreement to recognize Mr. Tanberg's overrides as pre-existing as of the date of the Farmout Agreement, and to date the Agreement and the attached JOA sometime later than the anticipated recording of the Assignments which should be around September 14, 1998. This will require some modification of various provisions in the Agreement. In addition to changes within the body of the Agreement, Exhibit "A", paragraph 1 would then be modified to show overriding royalties totaling 9.5% of 8/8. In paragraph two of Exhibit "A", the word "proportionately" in the last sentence should be deleted and the words "and overriding royalties totaling 2.0% of 8/8" added.

Paragraph A. (1) should then be replaced with the following: "During payout, an ORRI of $\frac{3}{4}$ of 10.5% of 80.15/320.03 plus $\frac{3}{4}$ of $\frac{1}{2}$ of 3.0% of 159.88/320.03, or 2.534282% of production", and, with this construction, the words "which shall be inclusive of the aforementioned overriding royalty to Scott W. Tanberg" should be deleted.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12043 Exhibit No. **10**
Submitted By:
Santa Fe Energy Resources
Date: September 14, 1998

Santa Fe Energy Resources, Inc.
September 14, 1998
Page Two

Paragraph A. (2) should then be modified to say "After payout, assuming Farmor elects to convert his ORRI, a 9.379394% Gross Working Interest and (9.379394% x .8175) or 7.667655% Net Revenue Interest.

Also, in the Exhibit "A", I would like to add, to the paragraph which begins "Under the terms of Sections 7 and 8 of this Agreement, Farmor shall be entitled to the following interests in each Earning Well," the following: "in addition to any interest Farmor may join for in the drilling of any well, as provided for in the Farmout Agreement."

Also, all of Page Two of Exhibit "A" needs to be modified if we treat Mr. Tanberg's Override as pre-existing.

Finally, I would like your confirmation that Mr. Tanberg's override in the 320-acre spacing unit would be 1.00% (plus or minus a three-place decimal) both before and after payout, as that is our intent.

- III. Farmout Agreement, Page One, Paragraph Three: the words "WHEREAS, Farmee desires to earn ...described" shall be deleted and be replaced with the following: "WHEREAS, Farmee desires to earn an undivided three-fourths ($\frac{3}{4}$) of Farmor's interest in the Subject Leases by drilling the well or wells for oil and gas hereinafter described, and Farmor has agreed to participate in the Test Well for his remaining $\frac{1}{4}$ interest in said leases, or $\frac{1}{8}$ of $\frac{8}{8}$ Gross Working Interest in said Test Well."
- IV. Farmout Agreement, Page Eight, top portion shall be modified as follows: "...a portion of Farmor's interest in said lease and lands, Farmor shall initially offer the Farmout to the parties who participate ("Participants") in the Test Well on a pro rata basis. However, the parties who receive such offer shall in no way be obligated to accept the Farmout. If the Participants decline to accept said Farmout on the terms offered or do not respond within ten days from the date the Farmout proposal is received, Farmor shall be free to offer the Farmout to other parties and shall not be obligated to re-offer it to the Participants unless the interests to be retained by Farmor (i.e., Overriding Royalties and After-Payout Working Interests) have been reduced by more than 25% of the interests which Farmor proposed to retain in his prior proposal to the Participants."

Santa Fe Energy Resources, Inc.
September 14, 1998
Page Three

- V. I want to add a provision dealing with Santa Fe's agreement to market my share of the gas produced from any well drilled under the terms of this Agreement. I have asked my attorney to review prior correspondence between us on the Gaucho Unit Wells in regard to this matter to see if the wording needs to be modified to provide that Santa Fe is obligated to market my share of the gas if requested by me.

I believe the above cover all the changes which I would propose, but I would like to reserve the right to pass final judgment after reviewing the amended Agreement. We are currently reviewing the form of JOA which you delivered this afternoon.

Sincerely,



Robert E. Landreth

3800-3a
(October 1990)

COPY

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0034
Expires: July 31, 1992

TRANSFER OF OPERATING RIGHTS (SUBLEASE) IN A LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES

Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1035)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

Lease Serial No.

NM 92782

Type or print plainly in ink and sign in ink.

Transferee (Sublessee)* **Scott W. Tanberg** PART A: TRANSFER
Street **P.O. Box 7662**
City, State, ZIP Code **Midland, Texas 79708**

If more than one transferee, check here and list the name(s) and address(es) of all additional transferees on the reverse of this form or on a separate attached sheet of paper.

Transfer is for: (Check one) Oil and Gas Lease, or Geothermal Lease

Interest conveyed: (Check one or both, as appropriate) Operating Rights (sublease) Overriding Royalty, payment out of production or other similar interests or payments

This transfer (sublease) conveys the following interest:

Land Description <small>Use additional space on reverse, if needed. Do not submit documents or agreements other than this form. Such documents or agreements shall only be referenced herein.</small>	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
	Owned	Conveyed	Retained	Reserved	Previously reserved or conveyed
	a	b	c	d	e
Section 4, R-34-E, N.M.P.M., Lea County, New Mexico		2% ORI			

FOR BLM USE ONLY—DO NOT WRITE BELOW THIS LINE

THE UNITED STATES OF AMERICA

This transfer is approved solely for administrative purposes. Approval does not warrant that either party to this transfer holds legal or equitable interest in this lease.

Transfer approved effective _____

Continued): ADDITIONAL SPACE for Names and addresses of additional transferees in Item No. 1, if needed, or for Land Description in Item No. 2 if needed.

PART B: CERTIFICATION AND REQUEST FOR APPROVAL

Transferor certifies as owner of an interest in the above designated lease that he/she hereby transfers to the above transferee(s) the rights specified above.

Transferee certifies as follows: (a) Transferee is a citizen of the United States; an association of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or territory thereof. For the transfer of NPR-A leases, transferee is a citizen, national, or resident alien of the United States or a citizen, national, resident alien or private, public or municipal corporation; (b) Transferee is not considered a minor under the laws of the State in which the lands covered by this transfer are located; (c) Transferee's chargeable interests, direct and indirect, in each public domain and acquired lands separately in each State, do not exceed 246,080 acres in oil and gas leases (of which up to 200,000 acres may be in oil and gas options), or 300,000 acres in leases in each leasing area in Alaska of which up to 200,000 acres may be in options, if this is an oil and gas lease issued in accordance with the Mineral Leasing Act of 1920, or 51,200 acres in any one State if this is a geothermal lease; and (d) All parties holding an interest in the transfer are otherwise in compliance with the regulations (43 CFR Group 3200) and the authorizing Acts; (e) Transferee is in compliance with reclamation requirements for all Federal oil and gas lease holdings as required by sec. 17(g) of the Mineral Leasing Act; and (f) Transferee is not in violation of sec. 41 of the Mineral Leasing Act.

Transferee's signature to this assignment constitutes acceptance of all applicable terms, conditions, stipulations and restrictions pertaining to the lease described herein. Applicable terms and conditions include, but are not limited to, an obligation to conduct all operations on the leasehold in accordance with the terms and conditions of the lease, to condition all wells for proper abandonment, to restore the leased lands upon completion of any operations as described in the lease, and to furnish and maintain a road as may be required by the lessor pursuant to regulations 43 CFR 3104, 3134, or 3206.

Transferee certifies that, if the lease is transferred to a citizen of the United States, an overriding royalty may not be less than one-fourth (1/4) of one percent of the value of output, nor greater than 50 percent of the rate of royalty payable to a citizen of the United States when this transfer is added to all previously created overriding royalties (43 CFR 3241).

Transferor certifies that the statements made herein by me are true, complete, and correct to the best of my knowledge and belief and are made in good faith.

this 4th day of August, 19 98

Executed this 10 day of Sep, 19 98

Robert E. Landreth and wife Donna P. Landreth
Transferor

Scott W. Tanberg

Please type or print

Robert E. Landreth
(Signature)

Scott W. Tanberg
(Signature)

Donna P. Landreth
(Signature)

or Attorney-in-fact
(Signature)

(Transferor's Address)

(City) (State) (Zip Code)

BURDEN HOURS STATEMENT

The estimated burden for this form is estimated to average 30 minutes per response, including the time for reviewing instructions, gathering and maintaining data, and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to U.S. Department of the Interior, Bureau of Land Management, (Alternate) Bureau Clearance Officer, (WO-771), 18 and C Streets, N.W., Washington, D.C. 20240, and the Office of Management and Budget, Paperwork Project (1004-0034), Washington, D.C. 20503.

U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

2400-3a
 (September 1990)

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 BUREAU OF LAND MANAGEMENT

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Lease Serial No.

NM 19142

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Land Description	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
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a	b	c	d	e	f
Section 4, R-34-E, N.M.P.M., Lea County, New Mexico Section 4: Lots 1, 2, S/2 NE/4, SW/4 27% ORI burdens only the 50% leasehold interest of Transferor in said lands and is proportionately reduced to Transferor's 50% leasehold interest, giving Transferee a 13% ORI in the lands described above.		*2% ORI (See note below)			

FOR BLM USE ONLY—DO NOT WRITE BELOW THIS LINE

THE UNITED STATES OF AMERICA

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Transfer approved effective _____

(continued): ADDITIONAL SPACE for Names and addresses of additional transferees in Item No. 1, if needed, or for Land Description in Item No. 2 if needed.

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I declare that the statements made herein by me are true, complete, and correct to the best of my knowledge and belief and are made in good faith.

On this 4th day of August, 19 98

Executed this 10 day of Sep, 19 98

by E. Landreth and wife Donna P. Landreth
Transferor

Scott W. Tanberg

Please type or print

Robert E. Landreth
(Signature)

Scott W. Tanberg
(Signature)

Donna P. Landreth
(Signature)

or
Scott W. Tanberg
Attorney-in-fact (Signature)

(Transferor's Address)

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Robert E. Landreth

OIL AND GAS EXPLORATION

35 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 684-4781

FAX# (915) 684-4783

FACSIMILE COVER SHEET

TO: Steve Smith
Santa Fe

DATE: 9-14-98

FAX NO: 686-6714

FROM: Bob Landreth

RE: Rio Bianco Farmout

Number of pages including this cover page: 8

If all pages are not received please call at : 915/684-4781

COMMENTS: _____

