

MATADOR PETROLEUM CORPORATION

SUITE 158, PECAN CREEK
8340 MEADOW ROAD
DALLAS, TX 75231-3751
Fax (214) 691-1415

Mona D. Ables
District Landman

Writer's Direct Line
(214) 987-7129

August 31, 1998

Re: Topacio #1 well
E/2 Section 28, T-19-S, R-33-E
Lea County, New Mexico
Maduro South Prospect

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Gregory Wilhelm
Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1330
Midland, TX 79701

**BEFORE THE
OIL CONSERVATION DIVISION**
Case No. 12063 Exhibit No. **4**
Submitted By:
Matador Petroleum Corp.
Hearing Date: November 19, 1998

Dear Gregory:

Matador Petroleum Corporation ("Matador") hereby proposes the drilling of the Topacio 28 #1 well to be located 1,650' FNL & 1,980' FEL of Section 28, T-19-S, R-33-E, Lea County, New Mexico. The East Half (E/2) of Section 28 will be dedicated as the proration unit for the well.

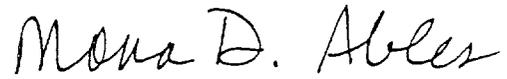
The well will be drilled to a depth sufficient to adequately test the Morrow formation, or 13,800', whichever is the lesser depth. Enclosed are the following items for your review and execution should you desire to participate in the drilling of the proposed well:

1. A draft of the proposed form of 1982 AAPL Form 610 Model Form Operating Agreement ("JOA") covering the E/2 Section 28, T-19-S, R-33-E, Lea County, New Mexico, as to all depths SAVE AND EXCEPT the Wolfcamp formation, which shall govern operations for the well. The JOA provides for Matador to operate the well with its majority working interest of 50%. If the enclosed JOA meets with your approval, I will have the Agreement executed on behalf of Matador.
2. Two (2) original AFE which outline the estimated cost of the operation for the drilling of the subject well. Should you desire to participate in the drilling, testing and completion of the proposed well, please return one (1) executed copy of the AFE to my attention.

Should Santa Fe not have an interest in participating in the drilling of the proposed well, we would appreciate your consideration of granting Matador a farmout of your interest in the SE/4 Section 28. We would propose terms wherein Santa Fe would deliver a 75% NRI, with the retained overriding royalty being convertible after payout to a 25% WI, proportionately reduced.

If you need any additional information, please feel free to call. Either myself, or another representative of Matador, would be happy to come by your office and meet with you to further discuss our proposed drilling plans for the E/2 Section 28. We look forward to working with you.

Sincerely,

A handwritten signature in black ink that reads "Mona D. Ables". The signature is written in a cursive, flowing style.

Mona D. Ables

MATADOR PETROLEUM CORPORATION

SUITE 158, PECAN CREEK
8340 MEADOW ROAD
DALLAS, TEXAS 75231-3751
(214) 987-3650
FAX # (214) 691-1415

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	<u>8/26/98</u>	AFE NO.:	<u>300526-10-01</u>
PROSPECT NAME:	<u>MADURO</u>	OPERATOR:	<u>MATADOR OPERATING COMPANY</u>
LEASE NAME:	<u>TOPACIO FEDERAL COM "28" #1</u>		
DESCRIPTION:	<u>13,800 MORROW AND WOLFCAMP TEST</u>		
LOCATION:	<u>1650' FNL & 1980' FEL OF SEC 28, T19S, R33E</u>		
COUNTY:	<u>LEA</u>	STATE:	<u>NEW MEXICO</u>
		PROPOSED TD:	<u>13,800'</u>

	DRILLING COSTS	COMPLETION COSTS	TOTAL COSTS
INTANGIBLE COSTS			
01 Land/Legal/Regulatory	\$ 1,000	\$	\$ 1,000
02 Location, surveys & damages	40,000	4,000	44,000
10 Rig Costs, Ftg, DW, Trnky	<u>48 + 2 DAYS @ \$5800/DAY</u>	300,000	12,000
13 Mob & Demob	25,000		312,000
16 Cementing & Float Equip	40,000	32,000	72,000
18 Testing, DST & Production	<u>2 DST'S</u>	12,000	9,000
19 Coring & Core Evaluation			21,000
20 Open Hole Logging	<u>DLL-MLL-FDC-CNL, OPT RSWC & RFT'S</u>	60,000	0
21 Mudlogging	<u>BEGINNING @ 3000'</u>	20,000	60,000
22 Geological Supervision	2,000		20,000
24 Mud & Chemicals	60,000	2,000	2,000
26 Freight / Transportation	2,000	10,000	62,000
28 Supervision / Engineering	30,000	5,000	12,000
30 Rental Equipment	30,000	15,000	35,000
31 Drill Bits	60,000		45,000
32 Fuel & Power			60,000
33 Water	30,000	5,000	0
34 Overhead	15,000	5,000	35,000
38 Directional Drig, Surveys			20,000
40 Completion Unit / Swab Unit		20,000	20,000
44 Cased Hole Log, Perforating		24,000	24,000
46 Stimulation		75,000	75,000
48 Insurance	8,000	1,000	9,000
50 Labor	15,000	10,000	25,000
52 Miscellaneous	15,000	6,000	21,000
54 Contingency			0
TOTAL INTANGIBLES >	\$765,000	\$235,000	\$1,000,000

	DRILLING COSTS	COMPLETION COSTS	TOTAL COSTS
TANGIBLE COSTS			
40 Conductor Casing	\$	\$	\$ 0
41 Surface Casing			0
42 Intermediate Casing	<u>400' OF 13 3/8" 48 PPF, K55, STC</u>	9,000	9,000
43 Drilling Liner	<u>5000' OF 8 5/8" 32 PPF, K55, STC</u>	55,000	55,000
44 Production Casing	<u>13,750' OF 5 1/2" 17 L80 & S95, LTC</u>		115,000
45 Production Liner		115,000	115,000
46 Tubing	<u>13,750' OF 2 7/8" 6.5 PPF, L80 8RD EUE</u>		0
47 Wellhead	5,000	49,000	49,000
48 Packers, Liner Hangers		13,000	18,000
49 Tanks		15,000	15,000
50 Production Vessels		16,000	16,000
51 Flow Lines		12,500	12,500
52 Rod String		2,000	2,000
53 Pump Unit & Prime Mover			0
55 Installation Costs		10,500	10,500
57 Miscellaneous		5,000	5,000
58 Non-Controllable Surface	1,000	5,000	6,000
59 Non-Controllable Downhole		2,000	2,000
TOTAL TANGIBLES >	\$70,000	\$245,000	\$315,000
TOTAL COSTS >	\$835,000	\$480,000	\$1,315,000

MATADOR OPERATING COMPANY

Prepared By: *J. L. Bell* Date: 8-26-98
 Approved By: *R. F. Burke* Date: 8-26-98
 R. F. Burke, Vice President

APPROVAL:
 NON-OPERATOR: SANTA FE ENERGY RESOURCES, INC.
 Approved: _____ Disapproved: _____ Tax ID: _____
 Working Interest (%): 25.00% Signed by: _____ Date: _____

Z 153 983 620

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

PS Form 3800, April 1995

Sent to	
Gregory Wilhelm, Santa Fe Energy Res.	
Street & Number	
550 W. Texas, Suite 1330	
Post Office, State, & ZIP Code	
Midland, TX 79701	
Postage	\$ 2.16
Certified Fee	1.35
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	1.10
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$ 3.61
Postmark or Date	8/31/98

MATADOR PETROLEUM CORPORATION

SUITE 158, PECAN CREEK
8340 MEADOW ROAD
DALLAS, TX 75231-3751
Fax (214) 691-1415

Mona D. Ables
District Landman

Writer's Direct Line
(214) 987-7129

August 31, 1998

Re: Topacio #1 well
E/2 Section 28, T-19-S, R-33-E
Lea County, New Mexico
Maduro South Prospect

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Mark Wheeler
Penwell Energy, Inc.
1100 Arco Building
600 N. Marienfeld
Midland, TX 79701

Dear Mark:

Matador Petroleum Corporation ("Matador") hereby proposes the drilling of the Topacio 28 #1 well to be located 1,650' FNL & 1,980' FEL of Section 28, T-19-S, R-33-E, Lea County, New Mexico. The East Half (E/2) of Section 28 will be dedicated as the proration unit for the well.

The well will be drilled to a depth sufficient to adequately test the Morrow formation, or 13,800', whichever is the lesser depth. Enclosed are the following items for your review and execution should you desire to participate in the drilling of the proposed well:

1. A draft of the proposed form of 1982 AAPL Form 610 Model Form Operating Agreement ("JOA") covering the E/2 Section 28, T-19-S, R-33-E, Lea County, New Mexico, as to all depths SAVE AND EXCEPT the Wolfcamp formation, which shall govern operations for the well. The JOA provides for Matador to operate the well with its majority working interest of 50%. If the enclosed JOA meets with your approval, I will have the Agreement executed on behalf of Matador.
2. Two (2) original AFE which outline the estimated cost of the operation for the drilling of the subject well. Should you desire to participate in the drilling, testing and completion of the proposed well, please return one (1) executed copy of the AFE to my attention.

Should Penwell not have an interest in participating in the drilling of the proposed well, we would appreciate your consideration of granting Matador a farmout of your interest in the SE/4 Section 28. We would propose terms wherein Penwell would deliver a 75% NRI, with the retained overriding royalty being convertible after payout to a 25% WI, proportionately reduced.

If you need any additional information, please feel free to call. Either myself, or another representative of Matador, would be happy to come by your office and meet with you to further discuss our proposed drilling plans for the E/2 Section 28. We look forward to working with you.

Sincerely,

A handwritten signature in cursive script that reads "Mona D. Ables". The signature is written in black ink and is positioned to the right of the typed name.

Mona D. Ables

MATADOR PETROLEUM CORPORATION

SUITE 158, PECAN CREEK
8340 MEADOW ROAD
DALLAS, TEXAS 75231-3751
(214) 987-3650
FAX # (214) 691-1415

ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

DATE:	8/26/98	AFE NO.:	300526-10-01
PROSPECT NAME:	MADURO	OPERATOR:	MATADOR OPERATING COMPANY
LEASE NAME:	TOPACIO FEDERAL COM "28" #1		
DESCRIPTION:	13,800 MORROW AND WOLFCAMP TEST		
LOCATION:	1650' FNL & 1980' FEL OF SEC 28, T19S, R33E		
COUNTY:	LEA	STATE:	NEW MEXICO
		PROPOSED TD:	13,800'

	DRILLING COSTS	COMPLETION COSTS	TOTAL COSTS
INTANGIBLE COSTS			
01 Land/Legal/Regulatory	\$ 1,000	\$	\$ 1,000
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21 Mudlogging	BEGINNING @ 3000'	20,000	60,000
22 Geological Supervision	2,000		2,000
24 Mud & Chemicals	60,000	2,000	62,000
26 Freight / Transportation	2,000	10,000	12,000
28 Supervision / Engineering	30,000	5,000	35,000
30 Rental Equipment	30,000	15,000	45,000
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32 Fuel & Power			0
33 Water	30,000	5,000	35,000
34 Overhead	15,000	5,000	20,000
38 Directional Drilg, Surveys			0
40 Completion Unit / Swab Unit		20,000	20,000
44 Cased Hole Log, Perforating		24,000	24,000
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48 Insurance	8,000	1,000	9,000
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52 Miscellaneous	15,000	6,000	21,000
54 Contingency			0
TOTAL INTANGIBLES >	\$765,000	\$235,000	\$1,000,000

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46 Tubing	13,750' OF 2 7/8" 6.5 PPF, L80 8RD EUE		0
47 Wellhead	5,000	49,000	49,000
48 Packers, Liner Hangers		13,000	18,000
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51 Flow Lines		12,500	12,500
52 Rod String		2,000	2,000
53 Pump Unit & Prime Mover			0
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TOTAL COSTS >	\$835,000	\$480,000	\$1,315,000

MATADOR OPERATING COMPANY

Prepared By: *J. L. Bell* Date: 8-26-98
 Approved By: *R. F. Burke* Date: 8-26-98
 R. F. Burke, Vice President

APPROVAL:

NON-OPERATOR: PENWELL ENERGY, INC.

Approved: _____ Disapproved: _____ Tax ID: _____

Working Interest (%): 25 - 00% Signed by: _____ Date: _____

Z 153 983 619

US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Sent to	Mark Wheeler, Penwell Energy, Inc.
Street & Number	1100 Arco Bldg., 600 N. Marienfeld
Post Office, State, & ZIP Code	Midland, TX 79701
Postage	\$ 2.16
Certified Fee	1.35
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	1.10
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$ 3.61
Postmark or Date	8/31/98

PS Form 3800 April 1995

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

- 1. Addressee's Address
- 2. Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Mr. Mark Wheeler
 Penwell Energy, Inc.
 1100 Arco Building
 600 N. Marienfeld
 Midland, TX 79701

4a. Article Number

Z 153 983 619

4b. Service Type

- Registered Certified
- Express Mail Insured
- Return Receipt for Merchandise COD

7. Date of Delivery

8/31/98

5. Received By: (Print Name)

Denise Merrim

6. Signature: (Addressee or Agent)

X *Denise Merrim*

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.
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- 2. Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Mr. Gregory Wilhelm
 Santa Fe Energy Resources, Inc.
 550 W. Texas, Suite 1330
 Midland, TX 79701

4a. Article Number

Z 153 983 620

4b. Service Type

- Registered Certified
- Express Mail Insured
- Return Receipt for Merchandise COD

7. Date of Delivery

9-3-98

5. Received By: (Print Name)

M. Choate

6. Signature: (Addressee or Agent)

X *M. Choate*

8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

Thank you for using Return Receipt Service.

Santa Fe Energy Resources, Inc.

October 20, 1998

VIA FAX AND U.S. MAIL
(214) 691-1415

Matador Petroleum Corporation
Suite 158, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231-3751

ATTN.: Ms. Mona D. Ables

Re: Agreement to Farmout
Proposed 13,800' Morrow Test
Topacio Fed COM "28" #1 Well
1650' FNL & 1980' FEL
Section 28, T-19-S, R-33-E
Lea County, New Mexico
SFERI's GEM PROSPECT

Ladies and Gentlemen:

By letter dated, August 31, 1998, Matador Petroleum Corporation (Matador) proposed drilling a 13,800 foot Wolfcamp/Morrow Test at a location 1650' FNL & 1980' FEL of Section 28, T-19-S, R-33-E, Lea County, New Mexico. In response, Santa Fe Energy Resources, Inc. (Santa Fe) hereby agrees to Farmout it's interest in the SE/4 of said Section 28 (the "Farmout Acreage") to Matador based upon the following general terms:

1. Within 90 days of execution of a formal Farmout Agreement by both parties, Matador must commence, or cause to be commenced, the drilling of a Test Well in the E/2 of Section 28, T-19-S, R-33-E, Lea County, New Mexico. The Test Well may be drilled at a location of Matador's choice in the E/2 of said Section 28 which is legal for the Morrow formation and must be drilled to a depth sufficient to thoroughly test ~~to Santa Fe's satisfaction~~ ^{MM4} the Morrow formation. Matador's only penalty for failing to drill the Test Well will be the forfeiture by Matador of the right to receive the assignments described below.
2. Upon completion of the Test Well as a well capable of producing in commercial quantities, Santa Fe will assign to Matador all of its rights, title and interest in that part of the Farmout Acreage included in the proration unit established for the Test Well pursuant to NMOCD rules and regulations, limited to those depths from the surface of the earth down to the stratigraphic equivalent of 100' below the deepest producing perforation in which the Test Well is so completed. Santa Fe will reserve

from such assignment a proportionately reduced overriding royalty interest equal to the difference by which twenty-five percent (25%) exceeds existing lease burdens.

3. At Payout of Test Well, Santa Fe will have the option, but not the obligation, to convert one-half (1/2) of its retained overriding royalty to a proportionately reduced 25% Working Interest. The relationship of the parties will thereafter be governed by a mutually acceptable AAPL (1982) Model Form Operating Agreement naming Matador as Operator to be attached as an Exhibit to the formal Farmout Agreement.

If the above general terms are acceptable, please sign this letter in the space provided below and fax a copy to my attention at (915) 686-6714. Please also return a hard copy by mail. Upon receipt of your favorable response, I will begin preparation of a formal Farmout Agreement for review and execution by both parties. If this offer is not accepted and executed by Matador and returned to Santa Fe on or before 5:00 P.M. C.S.T on October 26, 1998, it shall automatically terminate and become null and void for all purposes.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.



Steven J. Smith
Senior Staff Landman

ACCEPTED AND AGREED TO THIS 26 DAY OF OCTOBER, 1998.

MATADOR PETROLEUM CORPORATION

By: Mona D. Ables

Title: District Landman

MATADOR PETROLEUM CORPORATION

SUITE 158, PECAN CREEK
8340 MEADOW ROAD
DALLAS, TEXAS 75231-3751
(214) 987-3650
FAX: (214) 691-1415

C. Barry Osborne
General Counsel
Board Certified – Oil, Gas & Mineral Law
Texas Board of Legal Specialization

Writer's Direct Line
(214) 987-7117

October 22, 1998

VIA FACSIMILE
915/683-4514

Mr. Mark Wheeler
Penwell Energy, Inc.
600 N. Marienfeld, Suite 1100
Midland, TX 79701

Re: Topacio Federal Com "28" #1
E/2 Section 28, T-19-S, R-33-E
Lea County, New Mexico

Dear Mark:

Enclosed please find a revised Exhibit "A" to our proposed form of Joint Operating Agreement covering the above referenced lands.

You will note, modifications have been made to reflect our agreement that all depths shall be included as to the S/2 NE/4 and N/2 SE/4 of Section 28. As to such additional depths contributed, each party shall deliver a proportionately reduced 78% net revenue interest.

Also, please note the location of the well shall remain 1,650' FNL and 1,980' FEL Section 28, as originally proposed by Matador in our letter dated August 31, 1998.

As we relayed on to you, we had our attorney in Santa Fe continue our case to November 5, 1998. He indicated Penwell's case had also been continued to November 5. Hopefully, we'll be able to finalize our agreement prior to that date so we can dismiss both cases and get the well drilled and producing before the end of the year.

We appreciate your assistance in getting these matters resolved and look forward to working with you in the future.

Sincerely,



C. Barry Osborne

 *** TX REPORT ***

TRANSMISSION OK

TX/RX NO 0905
 CONNECTION TEL 19156834514
 SUBADDRESS
 CONNECTION ID
 ST. TIME 10/22 17:22
 USAGE T 01'05
 PGS. 2
 RESULT OK

MATADOR PETROLEUM CORPORATION

SUITE 158, PECAN CREEK
 8340 MEADOW ROAD
 DALLAS, TEXAS 75231-3751
 (214) 987-3650
 FAX: (214) 691-1415

C. Barry Osborne
 General Counsel
 Board Certified - Oil, Gas & Mineral Law
 Texas Board of Legal Specialization

Writer's Direct Line
 (214) 987-7117

October 22, 1998

VIA FACSIMILE
 915/683-4514

Mr. Mark Wheeler
 Penwell Energy, Inc.
 600 N. Marienfeld, Suite 1100
 Midland, TX 79701

Re: Topacio Federal Com "28" #1
 E/2 Section 28, T-19-S, R-33-E
 Lea County, New Mexico

Dear Mark:

Enclosed please find a revised Exhibit "A" to our proposed form of Joint Operating Agreement covering the above referenced lands.

You will note, modifications have been made to reflect our agreement that all depths shall be included as to the S/2 NE/4 and N/2 SE/4 of Section 28. As to such additional depths contributed, each party shall deliver a proportionately reduced 78% net revenue interest.

Also, please note the location of the well shall remain 1,650' FNL and 1,980' FEL Section 28, as originally proposed by Matador in our letter dated August 31, 1998.

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