



Santa Fe Energy Resources, Inc.

VIA FAX AND REGULAR MAIL

(915) 684-4783

January 12, 1999

Mr. Robert E. Landreth
505 North Big Spring
Suite 507
Midland, Texas 79701

Re: Proposed Morrow Test
Rio Blanco "4" Fed COM #2 - NM-30,256-002
660' FSL & 660' FWL
Section 4, T-23-S, R-34-E
Lea County, New Mexico
RIO BLANCO PROSPECT - NM-0965

Dear Mr. Landreth:

Santa Fe Energy Resources, Inc. (Santa Fe) hereby proposes to drill the Rio Blanco "4" Fed COM #2 well as a 13,450 foot Morrow test at a location 660' FSL & 660' FWL of Section 4, T-23-S, R-34-E, Lea County, New Mexico (the "Test Well"). If it is successfully completed in the Morrow Formation, we anticipate a 320 acre proration unit covering the S/2 of said Section 4. Based upon our most current title information, you appear to own a 50.0% working interest in the SW/4 of said Section 4 (the "farmout acreage"). Assuming this is correct, you would have a 25% working interest in the anticipated proration unit.

We respectfully request that you support Santa Fe's effort to drill this well by agreeing to either participate for your proportionate interest or farmout your interest to Santa Fe. Should you agree to participate, the Model Form Operating Agreement you executed dated September 18, 1998 covering the N/2 of said Section 4 could easily be amended to include the S/2. Should you choose to farmout, we propose the following general farmout terms:

1. Within 90 days of execution of a formal Farmout Agreement by both parties, Santa Fe would commence, or cause to be commenced, the drilling of a Test Well on the S/2 of Section 4, T-23-S, R-34-E, Lea County, New Mexico. The Test Well would be drilled at a location of Santa Fe's choice in the S/2 of said Section 4 to a depth of 13,450' 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 would be the forfeiture by Santa Fe of the right to receive the assignments described below.
2. Should the Test Well be completed as a well capable of producing in paying quantities, you would assign to Santa Fe all of your rights, title and interest in that part of the farmout acreage that is included in the proration unit established for the Test Well pursuant to NMOCD rules and regulations reserving a proportionately, reducible overriding royalty interest equal to the difference by which twenty five percent (25%) exceeds existing lease burdens.

BEFORE FRANKLIN COUNTY
OIL CONSERVATION DIVISION

EXHIBIT NO. 3

CASE NO. _____

3. If the Test Well is drilled, Santa Fe would 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 the Test Well, you would have the option to convert your retained overriding royalty to a proportionately reduced 25% Working Interest.

Please indicate your preference by executing and returning to the undersigned one copy of this letter. Should you choose to participate, please also execute and return one (1) copy of the enclosed duplicate original AFE Well Cost Estimates along with your geological information requirements and the names of personnel to receive reports. Should you choose to farmout your interest, I will be happy to work with you to prepare a mutually acceptable formal Farmout Agreement.

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

_____ Robert E. Landreth hereby elects to **PARTICIPATE** in the ~~recommended completion of~~
~~the~~ Rio Blanco "4" Fed COM #2.

_____ Robert E. Landreth hereby elects to **FARMOUT** based upon the general terms described herein.

ROBERT E. LANDRETH

Date: _____

CONFIRMATION REPORT - MEMORY SEND

Time : JAN-12-99 13:52
Fax number: 9156866714
Name : SANTA FE ENERGY RESOURCES

Job : 996
Date : JAN-12 13:49
To : 96844783
Doc. pages : 03
Start time : JAN-12 13:49
End time : JAN-12 13:52
Pages sent : 03

Job:996 *** SEND SUCCESSFUL ***



Santa Fe Energy Resources, Inc.
VIA FAX AND REGULAR MAIL
(915) 684-4783

January 12, 1999

Mr. Robert E. Landreth
505 North Big Spring
Suite 507
Midland, Texas 79701

Re: Proposed Morrow Test
Rio Blanco "4" Fed COM #2 - NM-30,256-002
660' FSL & 660' FWL
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RIO BLANCO PROSPECT - NM-0965

Dear Mr. Landreth:

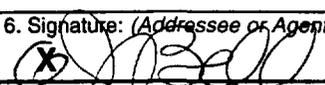
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Central Division
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3581

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. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: MR. ROBERT E. LANDRETH 505 N. BIG SPRING, SUITE 507 MIDLAND TX 79701		4a. Article Number P 101 783 113	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery 1-13-99	
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) 			

Thank you for using Return Receipt Service.

PS Form 3811, December 1994

102595-97-B-0179

Domestic Return Receipt

P 101 783 113

US Postal Service
Receipt for Certified Mail
 No Insurance Coverage Provided.
 Do not use for International Mail (See reverse)

Sent to	
Mr. Robert E. Landreth	
Street & Number	
505 N. Big Spring, Ste. 507	
Post Office, State, & ZIP Code	
Midland, Texas 79701	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Postmark or Date	
Rio Blanco "4" 7C #2	

PS Form 3800 April 1995

COPIES:
D. DeCarlo
S. Smith
R. Adams

Robert E. Landreth
OIL AND GAS EXPLORATION

505 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 684-4781

FAX# (915) 684-4783

February 5, 1999

FACSIMILE: 686-6714

Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1320
Midland, Texas 79701

ATTN: Mr. Steve Smith

RE: Proposed Rio Blanco "4"
Fed COM No. 2
660' FSL & 660' FWL
Section 4, T-23-S, R-34-E
Lea County, New Mexico

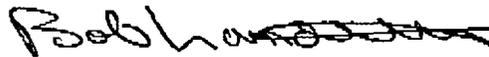
Dear Mr. Smith:

Reference is made to your letter of January 12, 1999, captioned subject.

Up until this time we have felt that any proposal to drill a well in the S/2 of Section 4 was premature in light of the fact that no testing had been done on the Rio Blanco "4" Fed COM No. 1. Now that testing has been done on that well, we feel that a meeting between the working interest participants in the proposed Rio Blanco "4" Fed COM No. 2 would be in order, to discuss the merits as well as the location for such a well. We would like to see this meeting scheduled as soon as possible to give all parties a chance to share their input.

We would appreciate hearing from you in this regard at your earliest convenience.

Sincerely,



Robert E. Landreth



Santa Fe Energy Resources, Inc.

VIA FAX

(915) 684-4783

March 4, 1999

Mr. Robert E. Landreth
505 North Big Spring, Suite 507
Midland, Texas 79701

Re: Proposed Morrow Test
Rio Blanco "4" Fed COM #2 - NM-30,256-002
660' FSL & 660' FWL
Section 4, T-23-S, R-34-E
Lea County, New Mexico
RIO BLANCO PROSPECT - NM-0965

Dear Mr. Landreth:

Reference is made to Santa Fe's letter of January 12th, 1998 proposing the Rio Blanco "4" Fed COM #2 well and your letter of February 4th, 1999 requesting a working interest owner meeting.

Santa Fe is agreeable to having a working interest owner meeting to discuss our well proposal and answer any questions you may have regarding the well proposal. I have advised Sam Thompson at Southwestern Energy that we are agreeable to such a meeting but have not yet heard back from him. Please let me know if you still desire such a meeting so that it can be scheduled. We would like to resolve the issue of your participation in the well as soon as possible in light of the upcoming March 18th Compulsory Pooling Hearing.

My direct number is (915) 686-6712.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.

Steven J. Smith
Senior Staff Landman

cc: Mr. Sam Thompson
Southwestern Energy Production Company
Fax No. (281) 618-4757

Rland017.doc

Robert E. Landreth
OIL AND GAS EXPLORATION

505 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

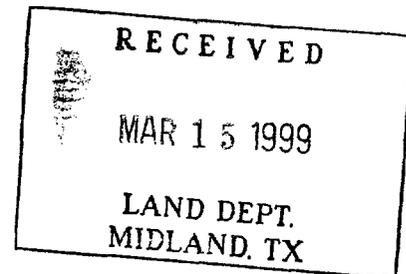
(915) 684-4781

FAX# (915) 684-4783

March 12, 1999

FACSIMILE: 686-6714

Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1320
Midland, Texas 79701



ATTN: Mr. Steve Smith

RE: Proposed Rio Blanco 4 Fed Com #2

Dear Mr. Smith:

Yes, I do still desire a meeting to discuss the above captioned well. I will be out of town Wednesday through Friday, March 17-19. Otherwise, I am available.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Landreth".

Robert E. Landreth

REL/jb

Robert E. Landreth
OIL AND GAS EXPLORATION

505 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 684-4781

FAX# (915) 684-4783

March 26, 1999

FACSIMILE: 686-6714

Santa Fe Energy Resources, Inc.
550 W. Texas
Suite 1320
Midland, Texas 79701

ATTN: Mr. Steve Smith

RE: Proposed Rio Blanco Fed Com #2
Lea County, New Mexico

Dear Steve:

Reference our telephone conversation today, in which you indicated that Santa Fe must move forward with the Force Pooling proceeding in the above captioned matter, which is scheduled for April 1, 1999.

I fully understand and appreciate Santa Fe's position with respect to the Hunt Oil Farmout in the S/2 Section 4, which you indicated has an expiration date of May 22, requiring the spudding of a well by that date. On the other hand, there are two significant developments which could materially impact not only my decision, but the decisions of Santa Fe and Southwestern Energy as well, as to whether or not the proposed captioned well even gets drilled. One of those is the fact that a Morrow well was spudded the first part of this week in the SW/4 NW/4 Section 9, which could be at TD and yield significant information which could influence the decision to drill the captioned well (the Rio Blanco Fed Com #1 reached TD and was logged 46 days after spudding). The second event is the proposed four point test and bottom hole pressure survey scheduled for next week on the Rio Blanco Fed Com #1. Again, the results of this test could be significant in the decision to drill the captioned well, and the results of this test are not likely to be available until after the Force Pooling hearing.

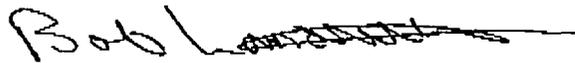
I simply want to have the same opportunity as Santa Fe to be able to evaluate all available information at the point in time when the decision has to be made to spud the captioned well, and I do not want to be put in a box of having to make that decision by next Thursday. In an effort to resolve this, I will voluntarily agree to either a) join for all of my interest, or b) farmout all my interest in the spacing unit for the captioned well. In the event of a farmout, I will accept the terms set out in your January 12, 1999 letter. I will further agree not to compete for a farmout of the Hunt Oil interest, or any other interest in

the S/2 Section 4 with respect to a Morrow test drilled at any time in the next six months in the S/2 Section 4.

As you know, we have had some tough negotiations and disagreements on a number of issues in this area. However, this is a straightforward attempt on my part to address Santa Fe's problem as well as to protect my own interest.

Because of the scheduled Force Pooling hearing on Thursday, I will need Santa Fe's answer to this proposal by Monday, March 29, 1999.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Landreth", with a long horizontal flourish extending to the right.

Robert E. Landreth

REL/jb

cc: Mr. Bill Carr



Santa Fe Energy Resources, Inc.

VIA FAX AND REGULAR MAIL

(915) 684-4783

March 29, 1999

Mr. Robert E. Landreth
505 North Big Spring, Suite 507
Midland, Texas 79701

Re: Proposed Morrow Test
Rio Blanco "4" Fed COM #2 - NM-30,256-002
660' FSL & 660' FWL
Section 4, T-23-S, R-34-E
Lea County, New Mexico
RIO BLANCO PROSPECT - NM-0965

Dear Mr. Landreth:

Reference is made to Santa Fe's letter dated January 12, 1999, proposing the referenced well and your letter dated March 26, 1999.

In your March 26th letter, you offer to make an election to either participate for your full interest in the proposed well, or farmout your entire interest pursuant to the "general terms" set out in the January 12th letter. While this proposal is perhaps the beginning of an acceptable agreement, there are at least two problems with it. First, it does not specify when you will make your election. An acceptable agreement will need to provide for a "date certain" by which you must make your election. We propose May 17, 1999 as that date. Secondly, should you elect to farmout rather than participate, the general farmout terms stated in the January 12th letter are just that... general. An acceptable agreement will need to have a formal farmout agreement attached as an exhibit and provide that failure on your part to timely elect be deemed an election to farmout under the terms of attached agreement.

It would be unfair to both sides to require that we finalize an agreement along these lines between now and the hearing scheduled for this coming Thursday. Accordingly, Santa Fe will proceed with the hearing as scheduled. However, we will continue to work with you towards finalizing a mutually acceptable agreement structured around the general terms outlined in your March 26th letter. If such an agreement is reached, we will notify the NMOCD and dismiss any order obtained.

If you have any questions or would like to discuss this matter further, my direct number is (915) 686-6712.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.

Steven J. Smith

Senior Staff Landman

Rland018.doc

Robert E. Landreth
OIL AND GAS EXPLORATION

505 N. BIG SPRING, SUITE 507

MIDLAND, TEXAS 79701

(915) 684-4781

FAX# (915) 684-4783

March 29, 1999

FACSIMILE: 686-6714

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

ATTN: Mr. Steve Smith

RE: Proposed Morrow Test
Rio Blanco "4" Fed COM #2
NM 30,256-002
660' FSL & 660 FWL
Section 4, T23S, R34E
Lea County, New Mexico
Rio Blanco Prospect - NM 0965

Dear Mr. Smith:

Reference is made to your letter dated today and faxed to us this afternoon, captioned subject.

If possible, I think we should make an effort to finalize an agreement prior to Thursday's hearing. The attorney whom I use in Santa Fe is out of the office this afternoon, but I believe his recommendation was that if we could not reach a voluntary agreement on my joinder or farmout, we would need to request a "de Novo" hearing to protect our options.

With that in mind, the May 17 election date quoted in your letter is acceptable to me, with the understanding that your spud date under the Hunt Farmout Agreement is May 22. If you are able to extend the spud date, my election would be extended accordingly. If, as you have indicated, you get a "prairie chicken" moratorium which delays the spud date until sometime in June, I assume you will have a "force majeure" event which will allow you to extend the spud date.

To address the other points which you raised, I would propose the following:

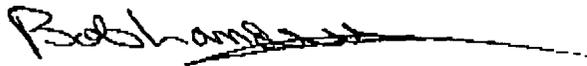
1. Our Farmout Agreement will mirror the agreement for the Rio Blanco #1 in all significant and applicable respects, and we can delete the language which is not applicable, principally that which dealt with my joinder for a portion of my interest in that well. I would also have the option to market my share of gas produced from this well under the terms of our September 28, 1998 Gas Market Agreement covering this area.

2. We each agree to share any and all information either of us may have obtained from the well currently drilling in the N/2 of Section 9, T-23-S, R-34-E, prior to the required election date.

If you wish, in the interest of time, I will go through the Farmout Agreement referenced above and make what I believe to be the necessary changes and forward it to you for your approval.

Please give me your thoughts on this as soon as possible,

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Landreth", with a long horizontal flourish extending to the right.

Robert E. Landreth

REL/jb
Hard Copy by Mail