

*file*

**Santa Fe Snyder Corporation**  
**VIA FAX AND CERTIFIED RETURN RECEIPT MAIL**  
(915) 368-1633

May 22, 2000

Phillips Petroleum Company  
4001 Penbrook  
Odessa, Texas 79762

Attr.: Mr. Randy Lewicki

Re: Proposed Morrow Test  
State "R" #2 Well  
3300' FSL & 660' FWL  
Section 1, T-21-S, R-34-E  
Lea County, New Mexico  
**Outland Prospect - NM-0919**

Gentlemen:

Santa Fe Snyder Corporation (Santa Fe) hereby proposes to drill the State "R" #2 Well as a 13,400 foot Morrow test at a location 3,300' FSL & 660' FWL of Section 1, T-21-S, R-34-E, Lea County, New Mexico. If successfully completed in the either the Atoka or Morrow formation, a 320 acre proration unit consisting of the middle 320 acres (Lots 9 through 16) of said Section 1 will be established. Based upon our most current title information, Phillips Petroleum Company (Phillips) appears to own 100.0% of the operating rights in Lot 9 of said Section 1. Assuming this is correct, Phillips would have a 12.5% working interest in the proposed well.

Enclosed are duplicate AFE Well Cost Estimates for the proposed well. Should Phillips choose to participate in the proposed well, please execute and return one copy of this letter and one AFE Well Cost Estimate to the undersigned. Also provide your well information requirements and the names of personnel to receive reports. Santa Fe and Nearburg Exploration Company, L.L.C. have already entered into an Operating Agreement covering the anticipated proration unit for the proposed well. Should Phillips choose to participate, you will be provided with a copy of that JOA for your review and execution.

Should Phillips choose not to participate in the proposed well, Santa Fe would accept a term assignment of Phillips' interest in Lot 9 based upon the following general terms:

- 8,000.00 total bonus consideration (\$200.00 per net acre);
- Two (2) year primary term; and
- Delivery of an 80.0% net revenue assignment with Phillips reserving an overriding royalty interest equal to the difference by which 20% exceed lease burdens.

Thank you for your consideration of this proposal. Because of expiring leasehold within the anticipated proration unit, we request your earliest possible response to this request. If you have any questions, my direct number is (915) 686-6712.

Sincerely,

**SANTA FE ENERGY RESOURCES, INC.**



Steven J. Smith  
Senior Staff Landman

\_\_\_\_\_ Phillips Petroleum Company hereby elects to participate in the drilling of the State "R" #2 well.

\_\_\_\_\_ Phillips Petroleum Company hereby agrees to grant Santa Fe Snyder Corporation a term assignment covering Lot 9 of Section 1, T-21-S, R-34-E, Lea County, New Mexico based upon the general terms hereinabove described.

PHILLIPS PETROLEUM COMPANY

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Enclosure

CONFIRMATION REPORT - MEMORY SEND

Time : MAY-22-00 09:40  
Fax number: 9156866714  
Name : SANTA FE SNYDER CORPORATION

Job : 179  
Date : MAY-22 09:38  
To : 919153681633  
Doc. pages : 04  
Start time : MAY-22 09:38  
End time : MAY-22 09:40  
Pages sent : 04

Job:179 \*\*\* SEND SUCCESSFUL \*\*\*



**Santa Fe Snyder Corporation**  
550 West Texas Avenue, Suite 1330  
Midland, Texas 79701  
915-687-3551  
FAX 915-686-6714

## Fax Cover Sheet

Date: 5-22-00  
To: Mr. Randy Lewicki, Phillips Petroleum Company  
Fax: (915) 368-1633  
From: Steven J. Smith  
RE: Proposed Morrow Test - State 'R' #2 well, Section 1, T-21-S R-34-E, Lea County, New Mexico

THIS MESSAGE IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED, AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL, AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone, and return the original message to us at the above address via U.S. Postal Service. Thank you.

Number of Pages Sent 3 (Not including cover sheet)  
Please call Frances @ 686-6637 if all pages not received

Fax Cover Sheet

SANTA FE SNYDER CORPORATION, INC.

GENERALIZED WELL COST ESTIMATE

|             |                                              |                                            |           |           |
|-------------|----------------------------------------------|--------------------------------------------|-----------|-----------|
| WELL NAME   | State R No. 2                                |                                            |           |           |
| LOCATION    | Sec. 1, T21S, R34E                           |                                            |           |           |
| DESCRIPTION | Drill and Complete a 13,400' Morrow Gas Well |                                            |           |           |
| ACCOUNT     | DESCRIPTION OF COSTS                         |                                            | DRY HOLE  | PRODUCER  |
| 501- 000    | TANGIBLE WELL COSTS                          |                                            |           |           |
| 501- 041    | Conductor Csg                                | 20" Conductor @ 40'                        | 3,500     | 3,500     |
| 501- 041    | Surface Csg                                  | 13-3/8" 54.5 & 61.0 ppf J-55 ST&C @ 1,300' | 27,300    | 27,300    |
| 501- 041    | Protection Csg                               | 9-5/8" 40.0 ppf K-55 ST&C @ 5,800'         | 70,992    | 70,992    |
| 501- 041    | Intermediate Csg                             | 7" 26.0 ppf S-95 & P-110 LT&C @ 12,000'    | 138,000   | 138,000   |
| 501- 041    | Prod Csg                                     |                                            |           |           |
| 501- 041    | Prod Liner                                   | 4-1/2" 13.50 ppf S-95 LT&C 11,700'-13,400' |           | 11,118    |
| 501- C42    | Tubing                                       | 2-3/8" 4.7 ppf P-105 AB-Mod EUE @ 13,400'  |           | 38,994    |
| 501- C43    | Wellhead                                     |                                            | 5,000     | 20,000    |
| 501- C44    | Pmpg Unit                                    |                                            |           |           |
| 501- C45    | Prime Mover                                  |                                            |           |           |
| 501- C50    | Other Dwn Hole Equip                         | Liner Top Packer & Hanger                  |           | 13,000    |
| 501- C50    | Rods                                         |                                            |           |           |
| 501- C50    | Subsurface Pmps                              |                                            |           |           |
| 501- C55    | Csg Equip                                    |                                            | 19,000    | 19,000    |
| 501- C55    | Electrical                                   |                                            |           |           |
| 501- C55    | Misc. Tangibles                              |                                            |           |           |
| 501- C55    | Rod Equip                                    |                                            |           |           |
| 501- C55    | Tubing Equip                                 |                                            |           | 5,000     |
|             | TOTAL TANGIBLE COSTS                         |                                            | 263,792   | 346,904   |
| 541- C00    | LEASE FACILITY COSTS                         |                                            |           |           |
| 541- C50    | Flowlines                                    |                                            |           | 20,000    |
| 541- C50    | Labor                                        |                                            |           | 20,000    |
| 541- C50    | Other Prod Equip                             | GPU & Dehyd Unit                           |           | 40,000    |
| 541- C50    | Tank Facilities                              | 2 Steel & 1 Fiberglass Tank w/ walkway     |           | 12,000    |
|             | TOTAL LEASE FACILITY COSTS                   |                                            | -         | 92,000    |
| 511- 000    | INTANGIBLE WELL COSTS                        |                                            |           |           |
| 511- 021    | Location                                     | Dirt Work & Damages Payment                | 40,000    | 40,000    |
| 511- 022    | Fencing                                      |                                            | 2,000     | 2,000     |
| 511- 026    | Drilling Water                               |                                            | 35,000    | 35,000    |
| 511- 031    | Contractor Moving Exp                        |                                            | 30,000    | 30,000    |
| 511- 032    | Cont Footage or Turnkey                      |                                            |           |           |
| 511- 032    | Contractor Daywork                           | 56 DAYS @ \$6500/D                         | 364,000   | 364,000   |
| 511- 033    | Drlg Fluid & Additives                       |                                            | 60,000    | 60,000    |
| 511- 034    | Bits & Reamers                               |                                            | 75,000    | 75,000    |
| 511- 036    | Coring & Core Analyses                       |                                            |           |           |
| 511- 037    | Cement                                       |                                            | 42,000    | 42,000    |
| 511- 039    | Inspection & Tstg of Tang                    |                                            | 10,000    | 10,000    |
| 511- 041    | Directional Drlg Surveys                     |                                            |           |           |
| 511- 042    | Drilling Equip Rental                        |                                            | 40,000    | 40,000    |
| 511- 043    | Open Hole Logging                            |                                            | 54,000    | 54,000    |
| 511- 044    | Drill Stem Tstg                              |                                            |           |           |
| 511- 045    | Mud Logging                                  | \$550/d X 35 days                          | 19,250    | 19,250    |
| 511- 051    | Transportation                               |                                            | 6,100     | 6,100     |
| 511- 052    | Completion Unit                              | 8 days X \$1200/day                        |           | 9,600     |
| 511- 053    | Completion Tool Rental                       |                                            |           | 4,500     |
| 511- 054    | Cased Hole Logs & Perfing                    |                                            |           | 14,000    |
| 511- 055    | Stimulation                                  |                                            |           | 100,000   |
| 511- 056    | Rigsite Supervision                          | 56 + 10 X \$550/day                        | 30,800    | 36,300    |
| 511- 072    | Administrative Overhead                      |                                            | 10,000    | 15,000    |
| 511- 099    | Fishing Tools & Exp                          |                                            |           |           |
| 511- 099    | Testing: BHP, GOR, 4 Pt Pot                  |                                            |           | 10,000    |
|             | Abandonment Cost                             |                                            | 30,000    |           |
|             | Other Intangibles                            | Rig Fuel at \$700/day X 56 days            | 39,200    | 39,200    |
| 0.1         | Contingency (10%)                            |                                            | 88,735    | 100,595   |
|             | TOTAL INTANGIBLES                            |                                            | 976,085   | 1,106,545 |
|             | TOTAL COSTS                                  |                                            | 1,239,877 | 1,545,449 |

|                                      |                                                         |
|--------------------------------------|---------------------------------------------------------|
| OPERATION DEPT APPROVAL (Initials)   | SFER APPROVAL                                           |
| APPROVAL DATE MRB 5/17/2000          | APPROVAL DATE <i>Bradley FSD</i> For Roger Rice 5-17-00 |
| ENGINEERING DEPT APPROVAL (Initials) | NON-OPERATOR APPROVAL                                   |
| APPROVAL DATE <i>JLM</i> 5/19/00     | APPROVAL DATE                                           |

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:**

Randy Lewicki  
Phillips Petroleum Co.  
4001 Penbrook  
Odessa, TX 79762

**4a. Article Number**

7099 3220 0006 1576 0333

**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**

5-13-00

**5. Received By: (Print Name)**

Gladis Medarez

**6. Signature: (Addressee or Agent)**

X Gladis Medarez

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

PS Form 3811, December 1994

102595-98-B-0229

Domestic Return Receipt

Thank you for using Return Receipt Service.

**U.S. Postal Service  
CERTIFIED MAIL RECEIPT  
(Domestic Mail Only; No Insurance Coverage Provided)**

**Article Sent To:**

Randy Lewicki, Phillips Pet. Co.  
4001 Penbrook, Odessa, TX 79762

Postage

\$

Certified Fee

Return Receipt Fee  
(Endorsement Required)

Restricted Delivery Fee  
(Endorsement Required)

Total Postage & Fees

\$

Postmark  
Here

Name (Please Print Clearly) (To be completed by mailer)

Steve Smith

Street, Apt. No., or PO Box No.

City, State, ZIP+ 4

PS Form 3800, July 1999

See Reverse for Instructions

7099 3220 0006 1576 0333