



Santa Fe Energy Resources, Inc.

VIA CERTIFIED RETURN RECEIPT MAIL

July 14, 1998

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

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
RJO BLANCO PROSPECT - NM0964

Dear Mr. Landreth:

Santa Fe Energy Resources, Inc. (Santa Fe) hereby proposes to drill a 13,700 foot Morrow test at a location 1980' FNL & 1980' FWL of Section 4, T-23-S, R-34-E, Lea County, New Mexico. If the well is successfully completed in the Morrow Formation, a 320.03 acre proration unit consisting of Lots 1, 2, 3, 4, S/2 N/2 (aka N/2) of said Section 4 would be anticipated. Santa Fe respectfully requests that you support this exploration effort by agreeing to participate for your proportionate interest in the well, or, in the alternative, by agreeing to either farmout or sell your operating rights in Section 4. Enclosed for your review and execution are two (2) copies of the AFE Well Cost Estimate for this well.

Based upon our most current title information, you appear to own a 50% working interest with a 40% net revenue interest in the Lots 1, 2, S/2 NE/4 and SW/4 of said Section 4 and a 100% working interest with an 87.5% net revenue in Lots 3 & 4 of said Section 4. If this is accurate, you would have a 50.02344% working interest and 41.90457% net revenue interest in the anticipated proration unit.

41.72641

Should you choose not to participate, 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 in the N/2 of Section 4, T-23-S, R-34-E, Lea County, New Mexico, at the location and depth described above. 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 in paragraphs 2 and 3 below.
2. Upon completion of the Test Well as a well capable of producing in paying quantities, you would assign to Santa Fe all of your operating rights in that part of the Lots 1, 2, 3, 4, S/2 NE/4 and SW/4 of said Section 4 (the "Farmout Acreage") included in the proration unit established for the Test Well pursuant to NMOCD rules and regulations.
3. You would retain a proportionately reduced overriding royalty equal to the difference by which 23% exceeds lease burdens with the option to convert the retained overriding royalty to a proportionately reduced 25% working interest after payout of the Test Well. The parties would then enter into a mutually acceptable AAPL (1982) Model Form Operating Agreement naming Santa Fe as Operator.

4. After completion of the Test Well, Santa Fe would have the option, but not the obligation, to earn the remainder of the Farmout Acreage not included in the proration unit for the Test Well through continuous development with no more than 180 days between completion of one well and commencement of the next.

As an alternative to the foregoing, Santa Fe would agree to pay you \$150.00 per net acre for an assignment covering all of your operating rights in said Section 4 with you reserving a proportionately reducible overriding royalty equal to the difference by which 23% exceed lease burdens (delivering no less than a 77% net revenue assignment).

To indicate your election, please execute and return to the undersigned one copy of this letter. Should you elect to participate, please also execute and return one (1) copy of the enclosed AFE Well Cost Estimate along with your geological information requirements and the names of personnel to receive reports. A Model Form Operating Agreement will then be forwarded for review and execution. Should you elect to farmout your interest, a mutually acceptable formal Farmout Agreement will be prepared for execution by both parties.

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

_____ I hereby elect to **PARTICIPATE** in the Rio Blanco "4" Fed COM No. 1 Well.

_____ I hereby elect to **FARMOUT** Lots 1, 2, 3, 4, S/2 NE/4 and SW/4 of said Section 4 based upon the general terms described herein.

_____ I hereby elect to **ASSIGN** Lots 1, 2, 3, 4, S/2 NE/4 and SW/4 of said Section 4 to Santa Fe based upon the general terms described herein.

ROBERT E. LANDRETH

Date: _____

PS Form 3800, April 1995

Postmark or Date	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, & Addressee's Address	
TOTAL Postage & Fees	\$
Restricted Delivery Fee	
Special Delivery Fee	
Certified Fee	
Postage	\$
Post Office, State, & ZIP Code	MIDLAND TX 79701
Street & Number	505 N. BIG SPRING, Ste. 507
Sent to	Mr. Robert E. Landreth

P 101 783 065

**US Postal Service
Receipt for Certified Mail**

No Insurance Coverage Provided.
Do not use for International Mail (See reverse)

<p>SENDER:</p> <ul style="list-style-type: none"> Complete items 1 and/or 2 for additional services. Complete items 3, 4a, & 8 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. 	<p>I also wish to receive the following services (for an extra fee):</p> <ol style="list-style-type: none"> <input type="checkbox"/> Addressee's Address <input type="checkbox"/> Restricted Delivery <p>Consult postmaster for fee.</p>
	<p>3. Article Addressed to:</p> <p>MR. ROBERT E. LANDRETH 505 N. BIG SPRING SUITE 507 MIDLAND TX 79701</p>
<p>5. Received By: (Print Name)</p> <p>6. Signature: (Addressee or Agent)</p> <p><i>W. P. Empleries</i></p>	<p>8. Addressee's Address (Only if requested and fee is paid)</p>

Thank you for using Return Receipt Service.



ANTA FE ENERGY RESOURCES INC.
GENERALIZED WELL COSTS ESTIMATE

C. M. Kelley
M. Burton
G. Travis

WELL NAME Rio Blanco "4" Federal #1
LOCATION Sec 4, T23S, R34E
DESCRIPTION Drill & Complete

T. Tinley
S. Smith
H. Adams
File Room

ACCOUNT	DESCRIPTION OF COSTS	DRY HOLE	PRODUCER
501-000	TANGIBLE WELL COSTS		
501-041	Conductor Csg	6500	6500
501-041	Surface Csg	20" 94 ppf BTC @ 850'	36,500 36,500
501-041	Protection Csg	13-3/8" 61 ppf K-55 BT&C @ 2200'	49,280 49,280
501-041	Intermediate Csg	9-5/8" 40 ppf J55 & L80 LT&C @ 5100'	76,500 76,500
501-041	Prod Csg	7" 26 ppf P-110 @ 11,800'	150,450 150,450
501-041	Prod Liner	4-1/2" 13.50 ppf S-95 LT&C 11,500'-13,700'	18,500
501-042	Tubing	2-3/8" 4.7 ppf P-105 AB-Mod EUE @ 13,450'	67,250
501-043	Wellhead		5,000 40,000
501-044	Pmpg Unit		
501-045	Prime Mover		
501-050	Other Dwn Hole Equip	Liner Top Packer & Hanger	15,000
501-050	Rods		
501-050	Subsurface Pmps		
501-055	Csg Equip		4,000 6,000
501-055	Electrical		
501-055	Misc. Tangibles		
501-055	Rod Equip		
501-055	Tubing Equip		5,000
	TOTAL TANGIBLE COSTS	328,230	470,980
541-000	LEASE FACILITY COSTS		
541-050	Flowlines		4,000
541-050	Labor		8,000
541-050	Other Prod Equip		30,000
541-050	Tank Facilities		19,000
	TOTAL LEASE FACILITY COSTS		61,000
511-000	INTANGIBLE WELL COSTS		
511-021	Location		85,000 85,000
511-022	Fencing		2,000 2,000
511-026	Drilling Water		20,000 20,000
511-031	Contractor Moving Exp		58,000 58,000
511-032	Cont Footage or Turnkey		
511-032	Contractor Daywork	37 days @ \$6250/day & 22 days @ \$7000/day	385,250 385,250
511-033	Drlg Fluid & Additives		75,000 75,000
511-034	Bits & Reamers		55,000 55,000
511-036	Coring & Core Analyses		
511-037	Cement		60,000 80,000
511-039	Inspection & Tstg of Tang		15,000 25,000
511-041	Directional Drlg Surveys		4,000 4,000
511-042	Drilling Equip Rental		44,250 44,250
511-043	Open Hole Logging		65,000 65,000
511-044	Drill Stem Tstg		
511-045	Mud Logging		22,500 22,500
511-051	Transportation		15,000 25,000
511-052	Completion Unit	10 days X \$1500/day	15,000
511-053	Completion Tool Rental		15,000
511-054	Cased Hole Logs & Perflng		13,000
511-055	Stimulation		30,000
511-056	Rigsite Supervision	62 + 10 X \$500/day	31,000 36,000
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		10,000
	Other Intangibles		85,000 85,000
0.05	Contingency (10%)	Rig Fuel @ \$600/day X 59 days + misc intang.	104,200 116,500
	TOTAL INTANGIBLES	1,146,200	1,281,500
	TOTAL COSTS	1,474,430	1,813,480

OPERATION DEPT APPROVAL (Initials)
APPROVAL DATE *2/1/98*

SFER APPROVAL
APPROVAL DATE *[Signature]*

ENGINEERING DEPT APPROVAL (Initials)
APPROVAL DATE *MH 6/18/98*

NON-OPERATOR APPROVAL
APPROVAL DATE