



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.

41.72661

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 NMOCDD 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.

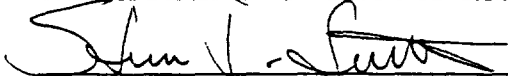
As an alternative to the foregoing, Santa Fe would agree to pay you \$150.00 per net acre for an assignment covering all of your operating rights in said Section 4 with you reserving a proportionately reducible overriding royalty equal to the difference by which 23% exceed lease burdens (delivering no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

P 101 783 065

**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	
Mr. Robert E. Landreth	
Street & Number	
505 N. Big Spring, Ste. 507	
Post Office, State, & ZIP Code	
Midland TX 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	
Midland TX 7-15-98	

Is your RETURN ADDRESS completed on the reverse side?

SENDER:

- 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.

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

- ☐ Addressee's Address
- ☐ 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 101 783 065

4b. Service Type

- ☐ Registered ☒ Certified
☐ Insured ☐ COD
☒ Restricted Delivery

7. Date of Delivery

7-15-98

5. Received By: (Print Name)

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

6. Signature: (Addressee or Agent)

Robert E. Landreth

Thank you for using Return Receipt Service.



ANTA FE ENERGY RESOURCES INC.
GENERALIZED WELL COSTS ESTIMATE

CC: C. H. K. K. K.
M. J. J. J.
G. Travis

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

T. Tinney
S. Smith
H. Adams
F. K. K.

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
501- 041	Protection Csg	13-3/8" 61 ppf K-55 BT&C @ 2200'	49,280
501- 041	Intermediate Csg	9-5/8" 40 ppf J55 & L80 LT&C @ 5100'	76,500
501- 041	Prod Csg	7" 26 ppf P-110 @ 11,800'	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
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 & Perfing		13,000
511- 055	Stimulation		30,000
511- 056	Rigsite Supervision	62 + 10 X \$500/day	31,000
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
	TOTAL INTANGIBLES	1,146,200	1,281,500
	TOTAL COSTS	1,474,430	1,813,480

OPERATION DEPT APPROVAL (Initials)

APPROVAL DATE 2/2/98

SFER APPROVAL

APPROVAL DATE 2/2/98

ENGINEERING DEPT APPROVAL (Initials)

APPROVAL DATE 2/2/98

NON-OPERATOR APPROVAL

APPROVAL DATE