

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

Certified Mail P 355 214 144

July 2, 1990

Yates Petroleum Corporation
105 S. Fourth Street
Artesia, New Mexico 88210

Attention: Ms. Kathy Porter

Re: Pure Gold Prospect
Section 4: All
T-23-S, R-31-E,
Eddy County, New Mexico

Gentlemen:

Santa Fe Energy Operating Partners, L.P. hereby proposes the formation of a 640 acre Working Interest Unit comprising the captioned acreage, with the initial test to be drilled at a location 1980' FWL & 660' FSL of Section 4, T-23-S, R-31-E, to a depth of 14,850' or sufficient to test the Atoka/Morrow Formation.

Santa Fe will review its geological data with you, subject to your agreement to either commit your leasehold interest to the proposed Working Interest Unit, under a mutually acceptable A.A.P.L. Form 610-1982 Model Form Operating Agreement, or farmout your leasehold interest to the Working Interest Unit under the following general terms:

1. On or before 120 days from the date of a formal agreement, Santa Fe would commence the drilling of a well at the location above with a proposed depth of 14,850' or sufficient to test the Morrow Formation.
2. Farmor would farmout 100% of its leasehold interest to the Working Interest Unit and retain an ORRI sufficient to deliver a 75% NRI lease to the Working Interest Unit.

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<i>Santa Fe</i>	EXHIBIT NO: <u>2</u>
10049	

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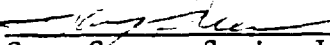
3. A well completed as a commercial producer would earn 100% of the leasehold interest from the surface to 100' below total depth drilled.
4. A well completed as a dry hole or commercial producer would earn Farmees the right to commence a subsequent well within 180 days from rig release of the prior well.
5. Farmor would have the option to convert the retained Overriding Royalty Interest to a 25% Working Interest (proportionately reduced) after payout of the initial test well and a one time election to retain its Overriding Royalty Interest or participate with its back-in Working Interest on subsequent wells under the proposed Operating Agreement.
6. Formal Agreements are subject to management approval.

Enclosed for your review please find a land plat showing Santa Fe's acreage and a Well Cost Estimate for the proposed test.

Should you have any questions, please give me a call.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By: Santa Fe Pacific Exploration Company,
Managing General Partner

By: 
Gary Green, Senior Landman

GG:pr

Enclosure a/s

YATES PETROLEUM CORPORATION hereby elects to join in the proposed Working Interest Unit or Farmout its leasehold interest under the terms proposed above, subject to a review of Santa Fe's geological data.

By: _____

Title: _____

Date: _____

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RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

U.S.G.P.O. 1989-234-555

PS Form 3800, June 1985

Sent to Yates Pet. Corp.	
Street and No. 105 S. Fourth Street	
P.O., State and ZIP Code Artesia, NM 88210	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom, Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	