



Santa Fe Energy Resources, Inc.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12043 Exhibit No. **3**
Submitted By:
Santa Fe Energy Resources
Hearing Date: September 17, 1998
RECEIVED

VIA CERTIFIED RETURN RECEIPT MAIL

July 10, 1998

AUG 24 1998
LAND DEPT.
MIDLAND, TX

Altura Energy, Ltd.
P. O. Box 4294
Houston, Texas 77010-4294
ATTN: Mr. Jerry D. West

Re: Prospect Designation and Well Proposal
RIO BLANCO PROSPECT
Rio Blanco "4" Fed. COM #1 Well
Section 4, T-23-S, R-34-E
Lea County, New Mexico
SFERI Contract No. NM-0964

Gentlemen:

Pursuant to Article IV.2 of that certain Amoco/Santa Fe Exploration and Drilling Agreement dated November 18, 1988, Santa Fe Energy Resources, Inc. (Santa Fe) hereby submits its written prospect designation covering the following lands:

RIO BLANCO PROSPECT

T-23-S, R-34-E, N.M.P.M.

Section 4: All

Lea County, New Mexico

Santa Fe's written geological interpretation along with geological mapping are enclosed in support of the Rio Blanco Prospect.

Subsequent to the date of the aforementioned Exploration and Drilling Agreement, Santa Fe acquired the following leasehold which is hereby offered to Altura pursuant to Article VII. of said Agreement:

SFERI Lease #NM-36868

T-23-S, R-34-E
Sec. 4: S/2 NW/4
80 acres M/L

USA - Lessor
Federal Oil & Gas Lease NM-92119
100% interest lease/50% net interest acquired (40.00 net acres)
Remaining primary term expiring 12-1-2003
1/8 lease royalty & 7.5% ORRI (80% NRI)
\$150.00 per net acre bonus = \$42,000.00 total cost

Concurrently with the Prospect Designation, pursuant to Article V.1 of said Exploration and Drilling Agreement, Santa Fe hereby proposes the Rio Blanco Fed COM # 1 well as the Initial Well in the Rio Blanco Prospect. It is proposed as a 13,700' Morrow test to be drilled 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 or Atoka formations, a 320.03 acre proration unit consisting of the N/2 of said Section 4 would be anticipated. Should Altura elect to acquire a proportionate interest in the above described leasehold, Altura would have a 6.2494% working interest within the anticipated proration unit for the well. Enclosed is the AFE Well Cost Estimate for this well. The geological data submitted in support of the prospect shall also serve as the geological data for this well.

Central Division
550 W. Texas, Suite 1330
Midland, Texas 79701
915/687-3551

Within 45 days of your receipt of this letter, please indicate your approval of the Rio Blanco Prospect and your election concerning acquisition of the above described leasehold and participation in the drilling of the Rio Blanco Fed COM # 1 well by executing and returning to the undersigned one copy of this letter. Should Altura elect to acquire the leasehold and to participate in the well, please also execute and return the enclosed AFE Well Cost Estimate. An assignment and JOA will then be forwarded for your review and execution.

Your earliest response will be sincerely appreciated. If you have any questions, my direct number is (915) 686-6712.

Sincerely,

SANTA FE ENERGY RESOURCES, INC.



Steven J. Smith
Senior Staff Landman

_____ Altura **APPROVES** the Rio Blanco Prospect Designation and elects **TO ACQUIRE** a proportionate interest in the leasehold described above and **PARTICIPATE** in the drilling of the Rio Blanco Fed COM # 1 well.

✓
_____ Altura **APPROVES** the Rio Blanco Prospect Designation and elects **NOT TO ACQUIRE** a proportionate interest in the leasehold described above and to **NOT PARTICIPATE** in the drilling of the Rio Blanco Fed COM # 1 well.

ALTURA ENERGY LTD.

By: Ronald Ch...

Title: Dir. - Nov. Op. Assets

Date: 8/13/98