



Santa Fe Energy Resources, Inc.

March 27, 1997

Mr. Bob Shelton
Nearburg Exploration Company, L.L.C.
3300 N. "A" Street
Building 2, Suite 120
Midland, Texas 79705

Mr. Wayne Bailey
Perry R. Bass, Inc.
Lee M. Bass, Inc.
Keystone Inc.
Sid R. Bass, Inc.
Thru Line Inc.
201 Main Street
Fort Worth, Texas 76102

Re: **Foal "17" Fed #1 Well**
N/2 Sec. 17, T-22-S, R-18-E
Eddy County, New Mexico

Gentlemen:

Referencing the drilling of the above captioned well, please find enclosed Santa Fe's Operating Agreement dated March 12, 1997. Please review, execute and return one signature page to the undersigned at the earliest convenience.

I have also enclosed one copy of the Drilling Title Opinion for your files. Please review and furnish curative relative to your interest.

Should you have any questions, please do not hesitate to call.

Yours very truly,

Joe W. Hammond, CPL
Senior Landman

JWH/efw
2 Encls a/s

NEW MEXICO
OIL CONSERVATION DIVISION

EXHIBIT 3

EWOR1743

CASE NO. _____

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

FOAL "17" FED. NO. 1

OPERATING AGREEMENT

DATED

March 12th, 19 97,

OPERATOR SANTA FE ENERGY RESOURCES, INC.

CONTRACT AREA N/2 Section 17, T-22-S, R-28-E

COUNTY ~~OR PARISH~~ OF EDDY STATE OF NEW MEXICO

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ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 12th day of March, 1997.

OPERATOR

SANTA FE ENERGY RESOURCES, INC.

By: [Signature]
R.I. Arnold, Attorney-in-Fact

APPROVE
[Signature]

NON-OPERATORS

PERRY R. BASS, INC.

By: _____

LEE M. BASS, INC.

By: _____

SID R. BASS, INC.

By: _____

NEARBURG EXPLORATION COMPANY, L.L.C.

By: [Signature]
Robert G. Shelton, Attorney-in-Fact

KEYSTONE, INC.

By: _____

THRU LINE, INC.

By: _____

Signature Page to Operating Agreement
dated March 12th, 1997
Foal "17" Fed #1 Well Area/Plc
County/Parish of Eddy County
State of New Mexico

LAW OFFICES
TURNER & DAVIS
A PROFESSIONAL CORPORATION

400 W. ILLINOIS, SUITE 1400
P. O. BOX 2796
MIDLAND, TEXAS 79702-2796

FRANK N. CREMER
MEMBER TEXAS AND NEW MEXICO BARS

TELEPHONE (915) 687-0011
FAX (915) 687-1735

March 20, 1997

ORIGINAL DRILLING TITLE OPINION

Santa Fe Energy Resources, Inc.
550 West Texas, Suite 1330
Midland, TX 79701

Attention: Mr. Joe W. Hammond, Senior Landman

Re: Your Foal "17" Fed Com No. 1 Well - Federal Oil and Gas Leases LC 067186 and NM 0415688 A, insofar as said leases cover the respective portions set forth below of the N/2 of Section 17, T-22-S, R-28-E, N.M.P.M., Eddy County, New Mexico:

LC 067186: N/2 N/2 of said Section 17, containing 160 acres, more or less; and

NM 0415688 A: S/2 N/2 of said Section 17, containing 160 acres, more or less.

Gentlemen:

At your request, we have examined the following:

MATERIALS EXAMINED

Abstracts

1. Abstract No. 48444, certified by Federal Abstract Company as covering the Plat Book Records, Historical Index Records, Case Abstract and Case File for Federal Oil and Gas Leases LC 067186 and NM 0415688 A, in the United States Department of the Interior, Bureau of Land Management State Office at Santa Fe, New Mexico, pertaining to all of Section 17 from inception of the records to January 13, 1997 at 9:00 a.m., containing 105 pages.

2. Abstract No. 97,020, certified by Currier Abstract Company as covering the mineral estate only in all of Section 17 from inception of the records to March 4, 1997 at 8:00 a.m., containing 114 pages.

Instruments

1. Copy of Assignment No. 13 analyzed below.
2. Copies of the Operating Agreement and Exploration Agreements analyzed below.
3. Copies of the Unit Agreement and Unit Operating Agreement for the Old Indian Draw Unit, both dated June 25, 1973.

TITLE TO THE MINERAL ESTATE IN CAPTIONED LAND

Based upon examination of the foregoing and subject to the title requirements and other matters set forth below, we find title to the mineral estate only in captioned land vested as follows:



Santa Fe Energy Resources, Inc.

VIA AIRBORNE EXPRESS

March 12, 1997

Mr. J. Wayne Bailey
Bass Enterprises Production Co.
201 Main Street
Fort Worth, Texas 76102-3131

Re: **Foal "17" Fed #1**
N/2 Sec. 27, T-22-S, R-28-E
Eddy County, New Mexico

Dear Wayne:

Pursuant to our telephone conversations, please find attached two (2) copies of Santa Fe's revised AFE covering the drilling of the above captioned well.

Please review, execute and return one copy as soon as possible.

Our JOA will follow in just a couple of days.

Yours very truly,

A handwritten signature in cursive script that reads "Joe W. Hammond".

Joe W. Hammond, CPL
Senior Landman

JWH/efw
2 Encls a/s

EWOR1700



**ANTA FE ENERGY RESOURCE INC.
GENERALIZED WELL COST ESTIMATE**

WELL NAME Foal "17" Fed. No.1 FOAL17.XLS
 LOCATION 1980' FNL & 1980' FEL, Sec. 17-22S-28E, Eddy Co., N.M.
 DESCRIPTION Drill and Complete A 12,600' Morrow Gas Well

ACCOUNT	DESCRIPTION OF COSTS		DRY HOLE	PRODUCER
501- 000	TANGIBLE WELL COSTS			
501- 041	Conductor Csg		4.000	4,000
501- 041	Surface Csg	13-3/8" 48.0 ppf H-40 ST&C @ 450'	8.100	8,100
501- 041	Protection Csg	8-5/8" 32.0 ppf K-55 ST&C @ 2670'	32.040	32,040
501- 041	Intermediate Csg			
501- 041	Prod Csg	5-1/2" 17 ppf N-80 LT&C @ 12600'		85,050
501- 041	Prod Liner			
501- 042	Tubing	2-3/8" 4.7 ppf N-80 AB-Mod EUE @ 12,600'		40,950
501- 043	Wellhead		5.000	25,000
501- 044	Prmpg Unit			
501- 045	Prime Mover			
501- 050	Other Dwn Hole Equip	Packer		6.500
501- 050	Rods			
501- 050	Subsurface Pmps			
501- 055	Csg Equip		700	1,200
501- 055	Electrical			
501- 055	Misc. Tangibles			1,000
501- 055	Rod Equip			
501- 055	Tubing Equip			
	TOTAL TANGIBLE COSTS		49.840	203.840
541- 000	LEASE FACILITY COSTS			
541- 050	Flowlines			2,500
541- 050	Labor			10,000
541- 050	Other Prod Equip	Production Unit and Dehydrator		25,000
541- 050	Tank Facilities	1 250 bbl water tank		5,000
	TOTAL LEASE FACILITY COSTS		-	42,500
511- 000	INTANGIBLE WELL COSTS			
511- 021	Location	Dirt Work & Damages Payment	25.000	25,000
511- 022	Fencing			
511- 026	Drilling Water		18.000	18,000
511- 031	Contractor Moving Exp			
511- 032	Cont Footage or Turnkey	12600' @ \$18/ft	226.800	226,800
511- 032	Contractor Daywork	3 @ \$5000/day	15.000	15,000
511- 033	Drig Fluid & Additives		25.000	25,000
511- 034	Bits & Reamers			
511- 036	Coring & Core Analyses	Rotary Sidewall Cores (25)	12.000	12,000
511- 037	Cement		20.000	45,000
511- 039	Inspection & Tstg of Tang		3.000	15,000
511- 041	Directional Drig Surveys			
511- 042	Drilling Equip Rental		6.000	6,000
511- 043	Open Hole Logging	CNL/LDT/GR/MSFL	25.000	25,000
511- 044	Drill Stem Tstg		4.000	4,000
511- 045	Mud Logging	\$400/d X 25	10.000	10,000
511- 051	Transportation		4.000	8,000
511- 052	Completion Unit			20,000
511- 053	Completion Tool Rental			8,000
511- 054	Cased Hole Logs & Perfing			14,000
511- 055	Stimulation			50,000
511- 056	Rigsite Supervision	30 @400/D	12.000	20,000
511- 072	Administrative Overhead		6.000	10,000
511- 099	Fishing Tools & Exp			
511- 099	Testing: BHP,GOR,4 Pt Pot			6,914
	Abandonment Cost		8.676	
	Other Intangibles			
0.05	Contingency (5%)		21.024	28,186
	TOTAL INTANGIBLES		441.500	591.900
	TOTAL COSTS		491.340	838,240

OPERATION DEPT APPROVAL (Initials)	SFER APPROVAL
APPROVAL DATE <i>JHC/anton 3/10/97</i>	APPROVAL DATE <i>WD Fulton for DDD 3/11/97</i>
ENGINEERING DEPT APPROVAL (Initials)	NON-OPERATOR APPROVAL
APPROVAL DATE <i>JHC 3/10/97</i>	APPROVAL DATE

BASS ENTERPRISES PRODUCTION CO.

201 MAIN ST.
FORT WORTH, TEXAS 76102-3131
817/390-8400

February 20, 1997



CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1330
Midland, Texas 79701

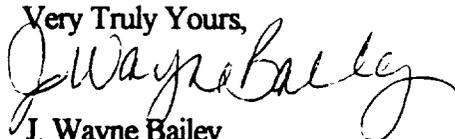
Attention: Joe W. Hammond, CPL

Re: Foal "17" Fed. No. 1
N/2 Section 17, T22S-R28E
Eddy County, New Mexico

Gentlemen:

We are is in receipt of a copy of your application for compulsory pooling filed with the New Mexico Oil Conservation Division for the Foal "17" Fed. No. 1, to be located in the N/2 Section 17, T22S-R28E in Eddy County, New Mexico. As we verbally informed you, Bass Enterprises Production Co. agrees to participate in said well subject to Bass being designated as operator. Since Bass will have the largest working interest, being 50%, which is significantly more than Santa Fe's, 37.50% or Nearburg Production Company's, 12.50%, Bass should be named as operator.

Bass will prepare and provide to you at a later date a cost estimate, with an AFE, as well as a Joint Operating Agreement.

Very Truly Yours,

J. Wayne Bailey

WWC/JWB:pb

cc: James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504



Santa Fe Energy Resources, Inc.

VIA AIRBORNE EXPRESS

February 3, 1997

Perry R. Bass, Inc.
Lee M. Bass, Inc.
Keystone, Inc.
Sid R. Bass, Inc.
Thru Line, Inc.
c/o Bass Enterprises Production Co.
201 Main Street, Suite 2900
Fort Worth, Texas 76102

ATTN: Mr. Wayne Bailey

Re: **Foal "17" Fed. #1**
T-22-S, R-28-E
Sec. 17: N/2
Eddy County, New Mexico

Gentlemen:

Santa Fe Energy Resources, Inc. proposes the drilling of a 12,600' Morrow test well at a location of 1980' FNL & 1980' FEL in Section 17, T-22-S, R-28-E, Eddy County, New Mexico. The spacing unit for this well will encompass the N/2 of Section 17.

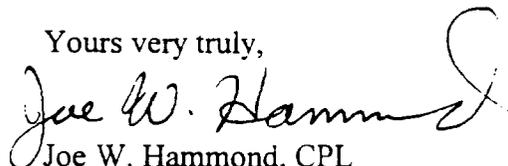
Our records indicate your ownership of a leasehold interest in the N/2N/2 of Section 17, and in that regard, Santa Fe requests your review and election of one of the following.

- a) Participate in the drilling of the well by returning an executed copy of the enclosed AFE. A Joint Operating Agreement will be provided to you at a later date.
- b) Farmout your right, title and interest in the drilling and spacing unit delivering to Santa Fe a 77.5% NRI Lease.
- c) Sell your interest to Santa Fe in the N/2N/2 of Section 17 for \$100.00 per net acre bonus delivering a 80% NRI Lease.

Perry R. Bass, Inc.
Lee M. Bass Inc.
Keystone, Inc.
sid R. Bass, Inc.
Thru Line, Inc.
February 3, 1997
Page 2

Should an alternative type of trade to the above be of interest to you, please do not hesitate to contact me at 686-6736.

Yours very truly,



Joe W. Hammond, CPL
Senior Landman

JWH/efw
1 Encl a/s

EWOR1616



SANTA FE ENERGY RESOURC , INC.

GENERALIZED WELL COST ESTIMATE

WELL NAME Foal "17" Fed. No.1 (Appaloosa Prospect) FOAL#2.XLS
LOCATION 1980' FNL & 1980' FEL, Sec. 17-22S-28E, Eddy Co., N.M.
DESCRIPTION Drill and Complete A 12,600' Morrow Gas Well

Table with columns: ACCOUNT, DESCRIPTION OF COSTS, DRY HOLE, PRODUCER. Rows include categories like TANGIBLE WELL COSTS, LEASE FACILITY COSTS, and INTANGIBLE WELL COSTS with various sub-items and their respective costs.

OPERATION DEPT APPROVAL (initials) SFER APPROVAL
APPROVAL DATE 02/11/97 APPROVAL DATE 11/21/97
ENGINEERING DEPT APPROVAL (initials) NON-OPERATOR APPROVAL
APPROVAL DATE 02/11/97 APPROVAL DATE

ILLEGIBLE

BASS ENTERPRISES PRODUCTION CO.

201 MAIN ST.

FORT WORTH, TEXAS 76102-3131

817/390-8400

January 24, 1997

RECEIVED

JAN 31 1997

LAND DEPT.
MIDLAND. TX

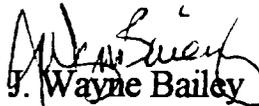
Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1330
Midland, TX 79701
Attn: Mr. Joe Hammond

Re: Proposed Well
Foal "17" Fed. No.1
Section 17-22S-28E
South Indian Flats Area
Eddy County, New Mexico

Dear Mr. Hammond:

Bass has received your letter dated January 21, 1997 proposing to drill the above well at a location within a 320 acre proration unit comprised of the N/2 of Section 17. Bass will proceed to review said proposal and Santa Fe will be notified of our election as soon as possible. Thank you very much and if you have any questions in the above regard, please advise.

Very truly yours


J. Wayne Bailey

JWB:pb



Santa Fe Energy Resources, Inc.

VIA AIRBORNE EXPRESS

January 21, 1997

Bass Enterprises Production Co.
201 Main Street, Suite 2900
Fort Worth, Texas 76102

ATTN: Mr. Wayne Bailey

Re: **Foal "17" Fed. #1**
T-22-S, R-28-E
Sec. 17: N/2
Eddy County, New Mexico

Gentlemen:

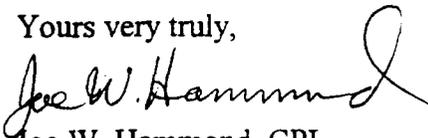
Santa Fe Energy Resources, Inc. proposes the drilling of a 12,600' Morrow test well at a location of 1980' FNL & 1980' FEL in Section 17, T-22-S, R-28-E, Eddy County, New Mexico. The spacing unit for this well will encompass the N/2 of Section 17.

Our records indicate your ownership of a leasehold interest in the N/2N/2 of Section 17, and in that regard, Santa Fe requests your review and election of one of the following.

- a) Participate in the drilling of the well by returning an executed copy of the enclosed AFE. A Joint Operating Agreement will be provided to you at a later date.
- b) Farmout your right, title and interest in the drilling and spacing unit delivering to Santa Fe a 77.5% NRI Lease.
- c) Sell your interest to Santa Fe in the N/2N/2 of Section 17 for \$100.00 per net acre bonus delivering a 80% NRI Lease.

Should an alternative type of trade to the above be of interest to you, please do not hesitate to contact me at 686-6736.

Yours very truly,


Joe W. Hammond, CPL
Senior Landman

JWH/efw (EWOR1586)
1 Encl a/s



SANTA FE ENERGY RESOURC , INC.
GENERALIZED WELL COST ESTIMATE

WELL NAME: Foal "17" Fed. No.1 (Appaloosa Prospect) FOAL#2.XLS
 LOCATION: 1980' FNL & 1980' FEL, Sec. 17-22S-28E, Eddy Co., N.M.
 DESCRIPTION: Drill and Complete A 12,600' Morrow Gas Well

ACCOUNT	DESCRIPTION OF COSTS		DRY HOLE	PRODUCER
501- 000	TANGIBLE WELL COSTS			
501- 041	Conductor Csg		4,000	4,000
501- 041	Surface Csg	13-3/8" 48.0 ppf H-40 ST&C @ 450'	8,100	8,100
501- 041	Protection Csg	9-5/8" 36.0 ppf K-55 ST&C @ 2,500'	27,500	27,500
501- 041	Intermediate Csg	7" 26.0 ppf S-95 LT&C @ 10,000'	110,000	110,000
501- 041	Prod Csg			
501- 041	Prod Liner	4-1/2" 13.50 ppf S-95 LT&C 9,700'-12,600'		26,100
501- 042	Tubing	2-3/8" 4.7 ppf N-80 AB-Mod EUE @ 12,600'		40,950
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		4,000	6,000
501- 055	Csg Equip			
501- 055	Electrical			
501- 055	Misc. Tangibles			
501- 055	Rod Equip			
501- 055	Tubing Equip			5,000
	TOTAL TANGIBLE COSTS		158,600	282,650
541- 000	LEASE FACILITY COSTS			
541- 050	Flowlines			4,000
541- 050	Labor			8,000
541- 050	Other Prod Equip	Separator, GPU & Dehyd Unit		30,000
541- 050	Tank Facilities			19,000
	TOTAL LEASE FACILITY COSTS		-	61,000
511- 000	INTANGIBLE WELL COSTS			
511- 021	Location	Dirt Work & Damages Payment	25,000	25,000
511- 022	Fencing			
511- 026	Drilling Water		30,000	30,000
511- 031	Contractor Moving Exp		30,000	30,000
511- 032	Cont Footage or Turnkey			
511- 032	Contractor Daywork	25 + 30 days @ \$5600/6000 /day	320,000	320,000
511- 033	Drig Fluid & Additives		60,000	60,000
511- 034	Bits & Reamers		50,000	50,000
511- 036	Coring & Core Analyses	Rotary Sidewall Cores (25)	15,000	15,000
511- 037	Cement		60,000	80,000
511- 039	Inspection & Tstg of Tang		8,000	18,000
511- 041	Directional Drig Surveys			
511- 042	Drilling Equip Rental		35,000	35,000
511- 043	Open Hole Logging	CNL/LDT/DLL/or ARRAY INDUCTION (3 Runs)	50,000	50,000
511- 044	Drill Stem Tstg			
511- 045	Mud Logging	\$400/d X 50 days	20,000	20,000
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			12,000
511- 055	Stimulation			30,000
511- 056	Rigsite Supervision	55 + 10 X \$400/day	22,000	26,000
511- 072	Administrative Overhead		6,000	10,000
511- 099	Fishing Tools & Exp			
511- 099	Testing: BHP,GOR,4 Pt Pot			8,619
	Abandonment Cost		8,667	
	Other Intangibles			
0.05	Contingency (5%)		37,733	43,731
	TOTAL INTANGIBLES		792,400	918,350
	TOTAL COSTS		951,000	1,262,000

OPERATION DEPT APPROVAL (Initials) APPROVAL DATE: <i>DD</i> 1/9/97	SUPER APPROVAL APPROVAL DATE: <i>DD</i> 1/21/97
ENGINEERING DEPT APPROVAL (Initials) APPROVAL DATE: <i>DD</i> 1/17/97	NON-OPERATOR APPROVAL APPROVAL DATE:

ILLEGIBLE