

Santa Fe Energy Resources, Inc.

VIA AIRBORNE EXPRESS

February 18, 1997

Mr. James Bruce
Suite B
612 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Directional Drilling
Federal "AE" #1 Well
Eddy County, New Mexico
SFERI Cont. #NM-30,082-AE1

Dear Jim:

Santa Fe Energy Resources, Inc. hereby requests your assistance in applying for Administrative Approval of directional drilling for the following well:

Federal AE #1 Well

Surface Location: 1650' FSL & 1980' FEL
Terminus: 1650' FNL & 2310' FEL
Project Area: NW/4SE/4 & SW/4NE/4
Section 20, T-22-S, R-28-E
Eddy County, New Mexico

The well will be drilled to test the Delaware Formation. The project area is within the Undesignated Delaware Pool, which is subject to Statewide Rules. The Form C-102 originally filed in 1979 showing the surface location of the well is attached, and a revised Form C-102 showing the change of pool and dedicated acreage is also attached.

Pursuant to Division Rule 111 (D), Santa Fe makes the following statements and submittals.

1. Santa Fe is drilling this well as a test horizontal well in the Delaware Formation.
2. Attached is a land plat of part of T-22-S, R-28-E. The project area of the well is outlined. The producing area is the same as the project area. There are no existing Delaware wells in the project area.

The land plat to test the Delaware at this location via a horizontal lateral lists the names and addresses of offset operators or lessees.

The project area is all Federal lands covered by Lease NM 86542. An APD has been filed with the Bureau of Land Management. The APD to re-enter was Approved on