

*Robert E. Landreth*  
OIL AND GAS EXPLORATION

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September 15, 1998

FACSIMILE: 686-6714

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

ATTN: Mr. Steve Smith

RE: Farmout Agreement & Operating Agreement  
Rio Blanco "4" Fed COM #1  
Lea County, New Mexico

Dear Mr. Smith:

- I. A second reading of the Farmout Agreement indicates that the following paragraph needs to be added to Section 1., page one: If Farmee elects to plug and abandon the Test Well before commercial production is established, it shall first notify Farmor, who shall have 48 hours (if there is a drilling rig on the hole, otherwise 30 days) after receipt of all well logs, tests, mud logs, pressure and other information gathered in the drilling of the Test Well in which to elect to take over the well. If Farmor elects to take over the well, it shall pay Farmee its proportionate share of the value (net after the cost of recovery of any recoverable casing or other down hole equipment and after deducting the cost of surface restoration and clean-up) of any equipment in the well, and thereafter Farmee shall have no interest in the Test Well and shall earn no rights under this Agreement. Farmor shall have the right to require that Farmee perform the usual and necessary surface restoration at Farmee's expense. Where the terms of this Section 1 conflict with any provision of the Operating Agreement dated September 15, 1998, the terms of this Section 1 shall govern.
- II. In the Operating Agreement, I would like to add the following to Article V. B (1): "At any time when net operating revenues from oil and gas sales (after deducting production taxes, royalties and overriding royalties) are less than 300% of operating expenses (including overhead and all other charges to the joint account) over any continuous 12 month period, any non-operator who is willing to operate the property for 75% or less of the then-current overhead charges can take over operation of the Contract Area. If more than one non-operator desires to take over operations, the non-operator owning the largest working interest set out in the original Exhibit "A" to this Operating Agreement shall become the successor Operator."

This provision would do away with the need for Article XV. K. If it is not acceptable to Santa Fe, we will need to negotiate some similar provision which protects me from excessive operating/overhead charges in the future.

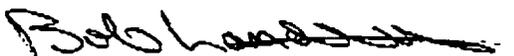
BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. 12043 Exhibit No. 12  
Submitted By:  
Santa Fe Energy Resources  
Meeting Date: September 15, 1998

Santa Fe Energy Resources  
September 15, 1998  
Page Two

- III. Gas Balancing Agreement, Paragraph 10, Line 17: Change twenty-five percent to twenty percent.
- IV. It would appear, in light of Paragraph I above, that the Operating Agreement needs to be made subject to the Farmout Agreement.

I plan to meet with my attorney at 4:00 p.m. this afternoon to go through both Agreements. I believe we have now addressed the major points which could be impediments to finalizing a trade. However, the proposed JOA contains a number of special provisions in Article XV. protecting Santa Fe, as operator, which I have not studied before because I was not a party to the preparation of the Gaucho Unit JOA. I have made every reasonable effort to conduct this review timely, but Santa Fe's last minute delivery of these documents is, in the final analysis, not my fault.

Sincerely,



Robert E. Landreth

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OIL AND GAS EXPLORATION

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FACSIMILE COVER SHEET

TO: Steve Smith

DATE: 9-15-98

Santa Fe Energy

FAX NO: 686-6714

FROM: Bob Landreth

RE: Rio Blanco Farmout

Number of pages including this cover page: 3

If all pages are not received please call at : 915/684-4781

Also -

COMMENTS: The name that needs to  
appear on the lease (NM 19142)\* is  
Evelyn G. Langrish.

\* that came from NM 17067