

File - Legal
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orig returned 4/18/97



Santa Fe Energy Resources, Inc.

APR 17 1997

April 11, 1997

FOR STEVE SMITH

Robert Landreth
505 N. Big Springs #507
Midland, TX 79701

Re: Gas Marketing Agreement
Gauncho Unit No. 2 Y
Sec 29-T-22S, R-34E
Lea Co., NM
Robert Landreth's Working Interest: 9.375% (BPO 300%)
37.50% (APO 300%)

Dear Mr. Landreth:

Santa Fe Energy Resources, Inc. (Santa Fe) as operator of the above-mentioned property, notwithstanding anything to the contrary in any other agreement between Santa Fe and Robert Landreth (hereinafter referred to as "Owner") hereby agrees to sell Owner's share of gas produced from such property (the "gas") subject to the following terms and conditions:

1. As an accommodation and not an obligation, Santa Fe will use its best efforts to sell Owner's share of the gas at the current market price, less severance taxes and any applicable transportation/gathering charges. Owner agrees to accept this price without recourse against Santa Fe. Should the purchaser of the gas refuse to pay for all or part of the gas sold and delivered, Santa Fe will use its best efforts to obtain payment, but shall not be liable to Owner for any gas sold and delivered to a purchaser unless Santa Fe receives payment for same. This Agreement contemplates the sale of Owner's gas under the same terms and conditions as Santa Fe sells its gas.
2. Owner authorizes Santa Fe to make nominations and negotiate, execute and administer on Owner's behalf any documents that are deemed appropriate to market such gas, provided however, Santa Fe shall not commit or dedicate Owner's gas under any agreement with a term in excess of one (1) year.
3. Santa Fe shall pay or tender or cause to be paid or tendered all lease burdens including, but not limited to, royalties, overriding royalties, and all applicable transportation/gathering charges and severance taxes that may become due under the terms of any sale on behalf of Owner. However, Santa Fe shall have no liability to Owner for the failure to make or tender any such payment. Santa Fe will remit directly to Owner one hundred percent (100%) of the net proceeds (less the applicable transportation charges and severance taxes set out above and any other costs associated with the production and sale of the gas) received from the disposition of the gas after payment of all lease burdens including, but not limited to, royalty and overriding royalty obligations.
4. Volumes attributable to the proceeds paid or credited to Owner hereunder shall be treated as volumes taken and sold by Owner, and not as volumes taken and sold by Santa Fe, for all purposes, including, without limitation, accounting under any statute, rule, regulation, order or

common law requiring such accounting, and accounting to royalty owners, overriding royalty owners and any other person or entity entitled to such accounting.

5. Owner agrees to indemnify, defend, and hold Santa Fe harmless from and against all suits, liability, fines or penalties, demands and/or claims of any kind that arise out of or are related to operations under this Agreement including, but not limited to, claims by government authorities, owners of royalty, overriding royalty, working interest or other interest. Owner further agrees to hold harmless, indemnify, and reimburse Santa Fe for all imbalance penalty charges attributable to the gas sold by Santa Fe hereunder and imposed on Santa Fe by any purchaser or transporter of the gas.
6. Owner represents and warrants that the gas is not subject to any existing dedication, that Owner possesses all power and authority to enter into this Agreement, and that Owner has the right to sell the gas to any party designated by Santa Fe. Owner also warrants there are no adverse claims to the gas and indemnifies and holds Santa Fe harmless from all suits, actions, debts, accounts, costs, losses, and expenses arising from or out of adverse claims of any party to the gas.

This Agreement shall become effective with date of first sales provided Santa Fe is in receipt of an executed copy of this Letter Agreement within 60 days of such date. Either party may terminate this Agreement by giving the other party at least thirty (30) days prior written notice, provided that any contracts for the sale of gas executed by Santa Fe on Owner's behalf prior to the effective date of such termination shall continue in full force and effect until the expiration of such contracts. This Agreement shall not be assigned or conveyed without the prior written consent of the other party.

1997 YTP
 IDEALON

If the foregoing conditions are acceptable, please so indicate by signing in the space provided below and returning one original of this Agreement to the undersigned. To facilitate our administration of these sales, we would appreciate your response within ten (10) days from receipt of this Agreement. Should you have any questions please contact Sharon Miller at (713) 507-5739.

Sincerely,

[Signature]
 Dianne Litke
 Manager, Gas Marketing

Note: For Sharon Miller 3/25/97
 Gaucho #1 is selling on the "Inside FERC" - El Paso-Permian Basin index less \$4 transportation (net of min BTU) less 0.5%
 Dec '96 \$3.59/mmBTU
 Jan '97 4.10
 Feb '97 2.55
 Mar '97 .54

ACCEPTED and AGREED to this 18 day of April 1997

Robert Landreth

By: *[Signature]*
 Title: OWNER

Mailed same date to Sharon Miller

e.g., Our price in Jan '97 would have been $(4.10 - .08) - 4.02 \times .995 = 3.99 / \text{mmBTU}$

(Tax ID #)	Index	Our Price	1997
July '97	2.00	1.91	
Aug '97	2.05	1.96	
Sept '97	2.29		
Oct '97	2.90		
Nov '97	3.12	3.0845	
Dec '97	3.21	2.12	

BTU of Gaucho #1 is 1036 e
 14.6
 John Havard
 713-297-5000