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January 8, 2003

VIA FACSIMILE: 405-552-8113
Devon Energy Corporation
20 Broadway
Oklahoma City, OK 73101-8260
Attn: Mr. Richard Winchester

Re: Rio Blanco Devonian Prospect
Lea County, New Mexico

Dear Richard:

This letter is in response to your January 7 proposal. I will address the issues in the order that you presented them.

- 1) Your paragraph 1 is acceptable.
- 2) I understand that Devon has an APD ready for mailing to the BLM and the NMOCD, honoring the operational procedure that we have discussed with Bill Greenlees and Bill Dougherty in the last two days. Assuming that we can finalize an agreement by January 15, the APD can be submitted and should be approved not later than March 15. Since there is no reason not to anticipate approval of the APD, all the planning for a rig to do this work and other items can be accomplished in the interim. We therefore want to stick to a commencement date of April 1. If regulatory approval of the APD is delayed beyond March 15, we will extend the deadline for commencement of actual operations by an equivalent number of days.
- 3) Your item 3 is acceptable.
- 4) Your item 4 is acceptable, assuming it is understood that each party's working interest (i.e., cost bearing interest) in any well drilled in the AMI will be based on its interest from first production in the Rio Blanco #1 re-entry. Also, since we are agreeing to terms of trade before having seen Devon's seismic, EGL and myself believe that Section 33 should be included in the AMI.
- 5) I have submitted the gas marketing letter which we received from Al Ledbetter on January 7 to Chris Holmquest at EGL Resources, who is a gas marketing consultant, for his review. I can see the need for some minor changes and the elimination of Devon's right to terminate the agreement upon sixty days prior written notice.

BEFORE THE
OIL CONSERVATION EXAMINER
Case No. 13048 Exhibit No. 12
Submitted By:
Devon Energy Production Co.
Hearing Date: April 10, 2003

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LAND DEPARTMENT

I also discussed with Bill Wince the fact that I would like to use my share of the gas from this well as potential leverage in dealing with Sid Richardson on a well which we are operating in T25S-R35E. I have not had a chance to discuss this yet with Al Ledbetter, which was Bill's suggestion.

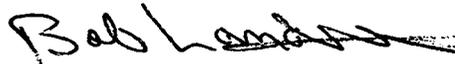
- 6) I suggest that the following language be included as a special article within the Joint Operating Agreement: "Notwithstanding any other provision hereof, it is agreed that if any Non-Operator has raised a legitimate and written issue with respect to errors in joint interest billings submitted by Devon, or mistakes in revenue accounting, then Operator shall not have the right to net any sums withheld from payment by Non-Operator from Non-Operator's share of production.

With respect with Devon's small leasehold position in Section 4, EGL and myself are still of the firm conviction that we are entitled to two-thirds (2/3rds) of the lease which you acquired from First Roswell Corporation. We are willing to forego that interest in the trade to which we have tentatively agreed. However, should Devon not perform under the terms of our agreement regarding the re-entry project, we will expect to have a provision in the agreement which states that Devon will assign all of its leasehold interest in Section 4 to us immediately following the date of such non-performance, so that we will not be constrained in anyway from pursuing the re-entry ourselves.

I also reiterated, in our telephone conversation today, that the 17.5% working interest for which I will be joining will be derived from my most favorable net revenue interest leases, and that the 45% being made available for farmout is from my least favorable net revenue interest leases, being a 75% NRI in the SE/4 Section 4 and, I believe, a 78% NRI in our one-half leasehold position in the NE/4 and SW/4 Section 4.

The understanding which we have reached with your engineers is that the re-entry will be cased through the top of the Devonian, followed by drilling out with a 4 1/8" bit and drilling approximately 25' of the first porosity zone encountered, which will then be drilled stem tested. If a satisfactory rate of flow is achieved, the well will be completed open hole at that depth. Otherwise, drilling will resume until we encounter a porosity zone which is gas bearing in sufficient quantity to justify completing.

Sincerely,



Robert E. Landreth

REL/tk

CC: Wes Perry
EGL Resources
P.O. Box 10886
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