

Mid-Continent Region
Production United States



**Marathon
Oil Company**

P.O. Box 552
Midland, TX 79702-0552
Telephone 915/682-1626

7-1774-2311-010

April 3, 1997

Attn: Mr. Rusty Waters
LOUIS DREYFUS NATURAL GAS CORPORATION
14000 Quail Springs Prkwy., Ste. 600
Oklahoma City, OK 73134-2600

Re: Farmout Agreement - Jim Bowie "11" Federal #1
S/2 Section 11, T-18-S, R-28-E, N.M.P.M.,
Eddy County, New Mexico

Gentlemen:

This letter will confirm Louis Dreyfus Natural Gas Corporation's (hereafter referred to as "Farmor") agreement to commit to Marathon Oil Company, on the express terms and conditions, and subject to the covenants, obligations, reservations, limitations, and contingencies hereinafter set forth, all of Farmor's right, title and interest in and to the Oil and Gas Lease(s) described in Exhibit "A", attached hereto and made a part hereof, INsofar AND ONLY INsofar as such lease covers, affects and applies to the tract of land specifically described therein and when properly accepted and returned, as hereinafter provided, shall constitute a contract between Marathon Oil Company (Marathon) and Farmor.

The express terms and conditions under which Farmor agrees to commit the aforesaid lease and lands, and provisions to which this Agreement is subject, are as follows:

(1) On or before August 31, 1997, Marathon will commence the actual drilling of a well for oil and/or gas at a location on the S/2 of Section 11, T-18-S, R-28-E, Eddy County, New Mexico (hereinafter referred to as Initial Well), and shall thereafter prosecute the work of drilling such well with due diligence and dispatch, unavoidable accidents and delays excepted, to a depth sufficient to adequately test the Morrow formation, or to 10,800', whichever is the lesser depth, which depth shall hereinafter be referred to as "Objective Depth". The drilling of said well shall be without cost, expense or risk to Farmor and said well shall be completed and equipped as a producer or plugged and abandoned as dry within one hundred twenty (120) days of commencement.

(2) In the event, conditions are encountered in the Initial Well which render further drilling impractical, or Marathon is prevented, for any reason, from reaching the Objective Depth, Marathon shall have the right to drill a Substitute Well or Wells in place

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 11774 Exhibit No. 4
Submitted By:
Marathon Oil Company
Hearing Date: May 1, 1997

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of the Initial Well until Marathon succeeds in drilling a well to the Objective Depth. Each Substitute Well must be commenced within sixty (60) days from the abandonment of the previous well, and completed and equipped as a producer, or plugged and abandoned as dry, within one hundred twenty (120) days of commencement.

(3) Upon completion of the Initial Well, as provided for in Article (1) above, or a Substitute Well, as provided for in Article (2) above, either as a dry hole, or as a producer, provided the same has been timely drilled, tested and completed, in a manner sufficient to fully comply with all of the terms and conditions of this agreement, Marathon shall have the right to a continuing option to drill additional tests on the S/2 of Section 11, T-18-S, R-28-E, Eddy County, New Mexico, until all such land has been included in a proration unit, as prescribed by the New Mexico Oil Conservation Division, upon which a well has been drilled to the Objective Depth, or to such lesser depth sufficient to thoroughly and adequately test the productive possibilities of the deepest formation in which oil and/or gas is encountered in said Initial Well (or Substitute Well, as the case may be). Should Marathon elect to drill the first such optional well hereunder, Marathon shall commence the actual drilling of such well at a location of Marathon's choice on the S/2 of Section 11, T-18-S, R-28-E, Eddy County, New Mexico, within one hundred eighty (180) consecutive days immediately following the date of completion of the Initial Well (or Substitute Well, as the case may be), and as to any successive optional well Marathon elects to drill, Marathon shall not permit more than one hundred eighty (180) consecutive days to elapse between the completion of the preceding well as a dry hole or a producer of oil and/or gas, and commencement of the successive optional well. Each optional well Marathon elects to drill, under the provisions of this paragraph, shall be drilled, tested and completed in the same manner and to the same Objective Depth stipulated in Article (1) above, or to such lesser depth sufficient to thoroughly and adequately test the productive possibilities of the deepest formation in which oil and/or gas is encountered in said Initial Well (or Substitute Well, as the case may be).

(4) During the course of the drilling, testing and completing of any well provided for by this agreement, the terms and conditions set forth in Exhibit "B", attached hereto and made a part hereof, shall apply.

(5) Upon completion of the Initial Well drilled hereunder, as provided for in Article (1) above or of a Substitute Well as provided for in Article (2) above, as a well capable of producing oil and/or gas, provided such well has been drilled at the location, within the time, in the manner, to the Objective Depth, and in full and complete compliance with all of the terms and conditions of this agreement, Farmor agrees to assign to Marathon, without warranty of title, either express or implied, and subject to such other conditions, limitations and reservations as are herein contained, all of its right, title and interest in and to the proration unit established for that well, from Five Hundred Feet (500') below the top of the San Andres formation to the stratigraphic equivalent of the total depth drilled, plus one hundred feet (100'), reserving unto itself, its successors and assigns, all currently producing zones, all rights below such depth and an overriding royalty interest equal to the difference between the current burdens and twenty-five percent (25%) in the

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leasehold being assigned, but in no event shall Marathon be delivered less than a seventy-five percent (75%) net revenue interest.

Upon completion of an optional well drilled hereunder, as provided for in Article (3) above, as a well capable of producing oil and/or gas, provided such well has been drilled at the location, within the time, in the manner, to the Objective Depth and in full and complete compliance with all of the terms and conditions of this Agreement, Farmor agrees to assign to Marathon, without warranty of title, either express or implied, and subject to such other conditions, limitations and reservations, as are herein contained, all of its right, title and interest in and to the proration unit established for that well, from Five Hundred Feet (500') below the top of the San Andres formation to the stratigraphic equivalent of the total depth drilled, plus One Hundred feet (100'), reserving unto itself, its successors and assigns, all currently producing zones, all rights below such depth and an overriding royalty interest equal to the difference between the current burdens and twenty-five percent (25%) in the leasehold being assigned, but in no event shall Marathon be delivered less than a seventy-five percent (75%) net revenue interest.

(6) It is expressly understood and agreed that the overriding royalty interest provided for herein, to be reserved and retained by Farmor, shall be in excess of and in addition to all other overrides and royalty burdens with which the leasehold estate herein assigned is now burdened, its being the intent hereof of delivering to Marathon a seventy-five percent (75%) net revenue interest in the Assigned premises, as described in Exhibit "A". The overriding royalty interest, provided for herein, to be reserved by Farmor (a) shall be calculated using net proceeds at the well for production sold and market value at the well for production used off the premises, and (b) may be pooled by Marathon without necessity of obtaining Farmor's consent or joinder.

(7) In the event the lease described in Exhibit "A" covers less than the entire and undivided fee simple mineral estate in the Assigned premises, and/or Farmor's interest in said lease is less than that of the original Lessee, then, in either event, the working interest assigned hereby and the overriding royalty interest reserved hereby shall be reduced to that ratio which the mineral interest actually covered by said lease or the leasehold currently owned by Farmor in the land, as set forth in Exhibit "A", bears to the whole and undivided mineral fee.

(8) Marathon and its assigns shall keep and perform all of the terms, provisions and implied covenants contained in the aforesaid lease, as to the Assigned Premises, and shall make prompt payment to the lessor in said lease, and to the overriding royalty owners and their assigns, of all royalties and overriding royalties upon production from the Assigned Premises. As a reasonable prudent operator would do, Marathon and its assigns shall also reasonably develop the Assigned Premises and protect the same from drainage by the drilling and producing of adequate offset wells.

Marathon shall timely and properly pay all shut-in gas royalties, as may

become due and payable under the terms of the aforesaid lease, as to the Assigned Premises.

Farmor shall continue to be responsible for payment of all rentals necessary to keep in effect the leasehold estates covered by said lease, but shall not be liable for failure to make proper or timely payment of such rentals. Upon receipt of proof of payment of such rentals, Marathon agrees to reimburse Farmor for its proportionate share of such rentals paid as to the Assigned Premises.

(9) Marathon and its assigns agree to accept full responsibility for the plugging or plugging and abandonment of all wells drilled under this Agreement and agree to comply with all the requirements of the statutes of the State of New Mexico and with all the rules and regulations of the New Mexico Oil Conservation Division, or successor regulatory body in effect at the time any well is plugged. Marathon and its assigns agree to hold Farmor harmless against any expense, claim or cause of action brought against Farmor, or its assignees, by any third party, including any governmental agency, arising from Marathon and its assigns' failure to plug or properly plug any well drilled under this Agreement.

(10) In the event, operations for the drilling of the Initial Well, or the Substitute Well provided for herein, are not commenced within the time specified, or after commencement such well is not diligently drilled and tested within the required time period, in the manner and to the Objective Depth, this Agreement shall ipso facto terminate (which termination shall be the only penalty incurred by Marathon), and Farmor shall thereupon be relieved of all obligations, contingent upon the drilling of such well. In such event, Marathon shall be responsible for plugging and abandoning any well drilled under this Agreement, and for restoring the surface. It is expressly understood and agreed that in the event a well provided for hereunder is not, upon completion, capable of producing oil and/or gas, Farmor shall neither be obligated nor required to assign Marathon such leasehold rights as are contingent upon drilling of such well.

(11) It is not the purpose or intention of this Agreement to create, nor shall the same be construed as creating any mining partnership, commercial partnership or other partnership relation, nor shall the operations of the parties hereunder be construed to be, or considered as a joint venture. The liability of the parties hereto shall be several and not joint or collective. The parties agree to elect to be excluded from the application of Subchapter K, of Chapter 1, of Subtitle A, of the Internal Revenue Code of 1986, as amended.

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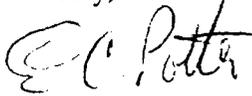
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(12) Time is of the essence hereof and the terms of this Agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective successors and assigns.

This letter is being sent to you in duplicate, and you are requested to indicate your acceptance on all copies in the space provided for that purpose before returning one (1) fully executed copy to Marathon Oil Company, P. O. Box 552, Midland, TX 79702-0552, to the attention of Mr. Tim Robertson. Failure on your part to return such signed copy within thirty (30) days after your receipt of this Agreement shall, at Marathon's election, render this Agreement null and void.

Sincerely,



E. C. Potter
Attorney-in-Fact



TBR;mmc'

AGREED TO AND ACCEPTED this 18th day
of April _____, 1997.

LOUIS DREYFUS NATURAL GAS CORPORATION ~~ORATION~~



By: R. E. Bross
Its: Executive Vice-President

rw
2-22

EXHIBIT "A"

Attached to and made a part of
Letter Agreement
dated April 15, 1997, between MARATHON OIL COMPANY and
LOUIS DREYFUS NATURAL GAS CORPORATION

- 1) U.S. LEASE No. NM-54184
Lessor: United States of America
Lessee: Depco, Inc., et al
Date of Lease: December 1, 1983
Recording: Book _____
Page _____
Lands: S/2 Section 11, T-18-S, R-28-E, N.M.P.M., Eddy County, New
Mexico.

EXHIBIT "B"

Attached to and made a part of
Letter Agreement
dated April 15, 1997, between MARATHON OIL COMPANY and
LOUIS DREYFUS NATURAL GAS CORPORATION

Please provide a copy of your well information requirements here.