

# BURLINGTON RESOURCES

SAN JUAN DIVISION

June 6, 1997

ELIZABETH T. ISHAM TRUST  
ROBERT T ISHAM & G S ISHAM &  
FIRST NATL BANK OF CHICAGO TRS  
UTA ELIZABETH ISHAM 10/28/84  
8150 N CENTRAL EXPY STE 1211  
DALLAS, TX 75206-1831

BEFORE EXAMINER CATANACH  
OIL CONSERVATION DIVISION

EXHIBIT NO. 0  
CASE NO. 11808 + 11809

RE: Acreage Support Proposal  
Scott #24 Well  
All of Section: 9, T31N, R10W  
636.01 Acres, More or Less  
Arch Rock Prospect  
San Juan County, New Mexico

Gentlemen:

Please reference my letter dated April 29, 1997 regarding the captioned well. As of this writing I have not received a written response from you concerning our proposal. Burlington Resources Oil & Gas Company (Burlington), is ready to drill this well as soon as possible. In that regard should we not hear from you in the near future we will be forced to pursue compulsory pooling under the rules and regulations of the State of New Mexico Oil Conservation Division. The few responses that we have received indicate a desire not to participate in the drilling and completion costs of the subject well. We respectfully request that you consider one of the following options in support of our Deep Penn Well.

- 1.) Participate with your interest in the drilling and completion of a 14,000' Penn Test with an estimated Dry Hole Cost of \$1,713,800.00 and \$603,173.00 completion costs for a total of \$2,316,973.00 (see the Well Proposal, JOA (4-1-97) and AFE submitted to you on April 29, 1997). The well will be governed by the April 1, 1997 AAPL Model Form 610-1982 Operating Agreement with a 400% non-consent penalty and no Preferential Right Provision. The JOA shall cover the subject section.
- 2.) Elect a Non-Consent position to the full extent of your interest in the drilling, testing, completing and equipping of the above described well to allow operator to recoup the 400% Non-Consent Penalty applicable to your proportionate share of all expenditures therefor.
- 3.) Farmout your interest covering your non-productive leasehold rights as set forth on the attached Farmout Letter. The terms and conditions are more fully set out in said letter, which among other things allows you to reserve an overriding royalty being the difference between the existing royalty burdens and overriding royalty and twenty (20%) percent, proportionately reduced, with no backin and a continuous drilling provision.

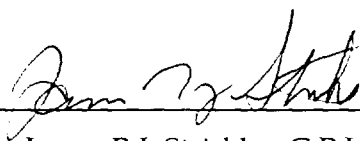
June 6, 1997

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Burlington is hopeful that you will find one of the above offers to your satisfaction. As always time is of the essence on putting together this type of prospect. Please respond with your election to one of our proposals in the space provided below, and return the letter ballot to the attention of the undersigned within fifteen (15) days of your receipt, or sooner if possible.

We look forward to hearing from you soon and please don't hesitate to call me at (505) 326-9756 if you should have any questions.

Yours very truly,

By:   
James R.J. Strickler, C.P.L.  
Senior Staff Landman

JRS/dg

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cc: William Franklin-Conoco, Inc.

\_\_\_\_\_ **Participate for your proportionate share in the subject test well in which your acreage is included in a spacing unit. Please execute the AFE and Operating Agreement previously sent to you on April 29, 1997.**

\_\_\_\_\_ **Elect a non-consent position to the full extent of the undersigned's interest in the drilling, testing, completing and equipping of the above described well and to allow Operator to recoup the 400% non-consent penalty applicable to said undersigned's proportionate share of all actual expenditures therefor.**

\_\_\_\_\_ **Farmout your interest in the prospect by executing and returning the attached farmout letter.**

AGREED TO AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 1997.

**ELIZABETH T. ISHAM TRUST**

By: \_\_\_\_\_

Name (Print): \_\_\_\_\_

Title (if applicable): \_\_\_\_\_

# BURLINGTON RESOURCES

SAN JUAN DIVISION

June 6, 1997

ELIZABETH T. ISHAM TRUST  
ROBERT T ISHAM & G S ISHAM &  
FIRST NATL BANK OF CHICAGO TRS  
UTA ELIZABETH ISHAM 10/28/84  
8150 N CENTRAL EXPY STE 1211  
DALLAS, TX 752061831

**RE: Farmout Letter Agreement  
Sections: 3, 4, 9, 10, 11 & 12, T31N, R10W  
Arch Rock Prospect  
San Juan County, New Mexico**

Gentlemen:

BURLINGTON RESOURCES OIL & GAS COMPANY (hereinafter referred to as "Burlington") hereby requests that you grant a Farmout Agreement of the interest of ELIZABETH T. ISHAM TRUST (hereinafter referred to as "Farmor"), in the subject lands and leases and more particularly described on Exhibit "A" (Farmout Lands) and "B" (Farmout Leases) insofar as Farmor's interest covers undeveloped depths below the base of the Mesaverde formation (hereinafter referred to as the "Farmout Lands"), on the following terms and conditions:

- 1) On or before January 1, 1998, Burlington will have the right to commence drilling of an Initial Test Well at a legal location in Section: 9, T31N, R10W, San Juan County, New Mexico, and drill said Initial Test Well with due diligence to a depth of 14,000', or a depth sufficient to penetrate and test the Pennsylvanian formation, whichever is the lesser depth. Please see the attached Exhibit "B" identifying Farmor's leasehold acreage and ownership in the farmout lands.
- 2) If the Initial Test Well or Option Well is completed in the Farmout Lands as a commercial producer of oil and/or gas, Burlington will earn an assignment of 100% of Farmor's interest, if any, within the production unit established for the Initial Test Well, reserving to Farmor an overriding royalty being the difference between the lease burdens and twenty (20%) percent, of all oil, gas and other minerals allocated to production from the farmout lease, proportionately reduced.

In the event the Initial Test Well or Option Well is drilled to the Objective Depth and is completed with the results required herein for earning an assignment, (said well being hereafter called "Earning Well"), and Farmee has otherwise complied with the requirements, conditions, and obligations of the Agreement, Farmor shall upon receipt of written request from Farmee, execute and deliver to Farmee, within thirty (30) days of receipt of Farmee's written request, in the form attached hereto as Exhibit "C", a recordable assignment of the following interest:

(a) All of Farmor's interest in the subject lease(s) described in Exhibit "B" hereto which are included in a production unit (either drilling and spacing, proration or pooled) duly established by the regulatory agency of the state in which the well is located, or by voluntary agreement of the parties owning the interests in such unit, for the Earning Well, reserving to Farmor an overriding royalty interest as hereinbelow described.

(b) Said assignment shall contain the following reservations and exceptions, shall be limited as hereinafter set out, and shall be subject to other such provisions and conditions as are hereinafter set out:

(1) Said assignment shall be limited as to depth from the base of the Mesaverde to all depths in the well earning such an assignment. In no event shall the assignment convey to Farmee any rights above the base of the Mesaverde.

(2) Said assignment shall contain no warranty of title, either express or implied, and shall be effective as of the date hereof.

(3) Farmor accepts and reserves unto itself, its successor and assigns an overriding royalty equal the difference between lease burdens and 20% of all oil, gas and other minerals that are produced, saved and marketed from the lands covered by the oil, gas and mineral lease(s) described in Exhibit "B" that are included in a production unit detailed in this paragraph 2 (a) above.

(4) If the subject leases and lands in which Farmor reserves an overriding royalty interest shall be included with other leases and lands in a production unit (either drilling and spacing, proration or pooled) established by the relevant state regulatory agency or within any other consolidated or pooled unit for the production of, or to which is allocated, oil, gas, condensate, casinghead gas and/or other liquid or gaseous hydrocarbons (whether both royalty and working interest or either one be pooled therein), then for purposes of calculating the overriding royalty interest there shall be allocated to the subject lands covered by the subject leases, to the extent said lands are included within the aforesaid unit, that pro rata portion of such production from the unit which the number of surface acres covered by the subject leases and included within the unit bears to the number of surface acres included within said unit.

- 3) In the event the Initial Test Well is drilled in a timely manner set out above, Burlington will earn the right to drill an Option Well at another location within the Farmout Lands, or acreage pooled therewith, within 365 days from the date of drilling rig release on the Initial Test Well, and earn an assignment of Farmor's interest in the Option Well's production unit under the same terms and conditions as for the Initial Test Well. There is a possibility of H<sub>2</sub>S gas which necessitates the building of a treatment plant and appropriate infrastructure to produce a sour Pennsylvanian well. The Option Well is to be drilled to the same formation as the Initial Test Well. Burlington is contemplating 640 acre spacing with 1200' set backs from the sections or Unit Lines for Pennsylvanian production.
- 4) Burlington shall have the right and option to earn the remainder of Farmor's leasehold in the Farmout Lands, on a unit by unit basis, under the same terms and conditions as the Initial Test Well by allowing not more than 180 days to elapse between completion of one Option Well and commencement of another Option Well. The 180 day continuous development program shall be extended in the event the BLM and NMOCD, other regulatory agency or force majeure delay the timely issue of permits necessary to drill on the Farmout Lands. The BLM indicates an Environmental Impact Statement (EIS) may be required in the event a successful discovery well is drilled and completed. This possibility may delay the approval of the permits to drill additional wells on the Farmout lands within the original 180 day time frame.
- 5) Burlington agrees to use good field practice and industry standards in the drilling of each well.
- 6) Failure of Burlington to drill the Initial Test Well will result in a forfeiture of Burlington's right to earn an assignment of Farmor's leasehold interest under this Agreement.
- 7) In the event Burlington is unable to reach the intended formation in any Initial Test Well or any Option Well, because further drilling becomes impractical, Burlington

may commence to drill a substitute well within 90 days and, if completed as a commercial producer, earn the rights that would have been earned by the well for which it is a substitute.

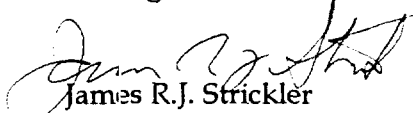
- 8) Burlington may assign part of any, rights and obligations hereunder to Conoco Inc., but may not assign part of any such interest to any other party without the consent of Farmor, said consent shall not be unreasonably withheld.

All operations shall be conducted at Burlington's sole expense and in a proper and workmanlike manner and in accordance with all applicable laws and regulations of the constituted authorities, and Burlington shall defend, indemnify and hold Farmor and its officers, directors, agents, employees and invitees harmless from all liability for damage (including attorney's fees) to the person (including death) and/or property of all persons arising from Burlington's performance or non-performance of operations conducted hereunder.

If this Farmout Letter Agreement meets with your approval, please execute a copy of same and return to the undersigned within fifteen (15) days from the date hereof. Please respond sooner if at all possible to allow us time to overcome the regulatory and logistical hurdles necessary to permit and drill the Initial Test Well. If you should have any questions concerning our Farmout request, please call me at (505) 326-9756.

Yours very truly,

Burlington Resources Oil & Gas Company

  
James R.J. Strickler  
Senior Staff Landman

JRS/dg  
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AGREED TO AND ACCEPTED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 1997.

**ELIZABETH T. ISHAM TRUST**

By: \_\_\_\_\_

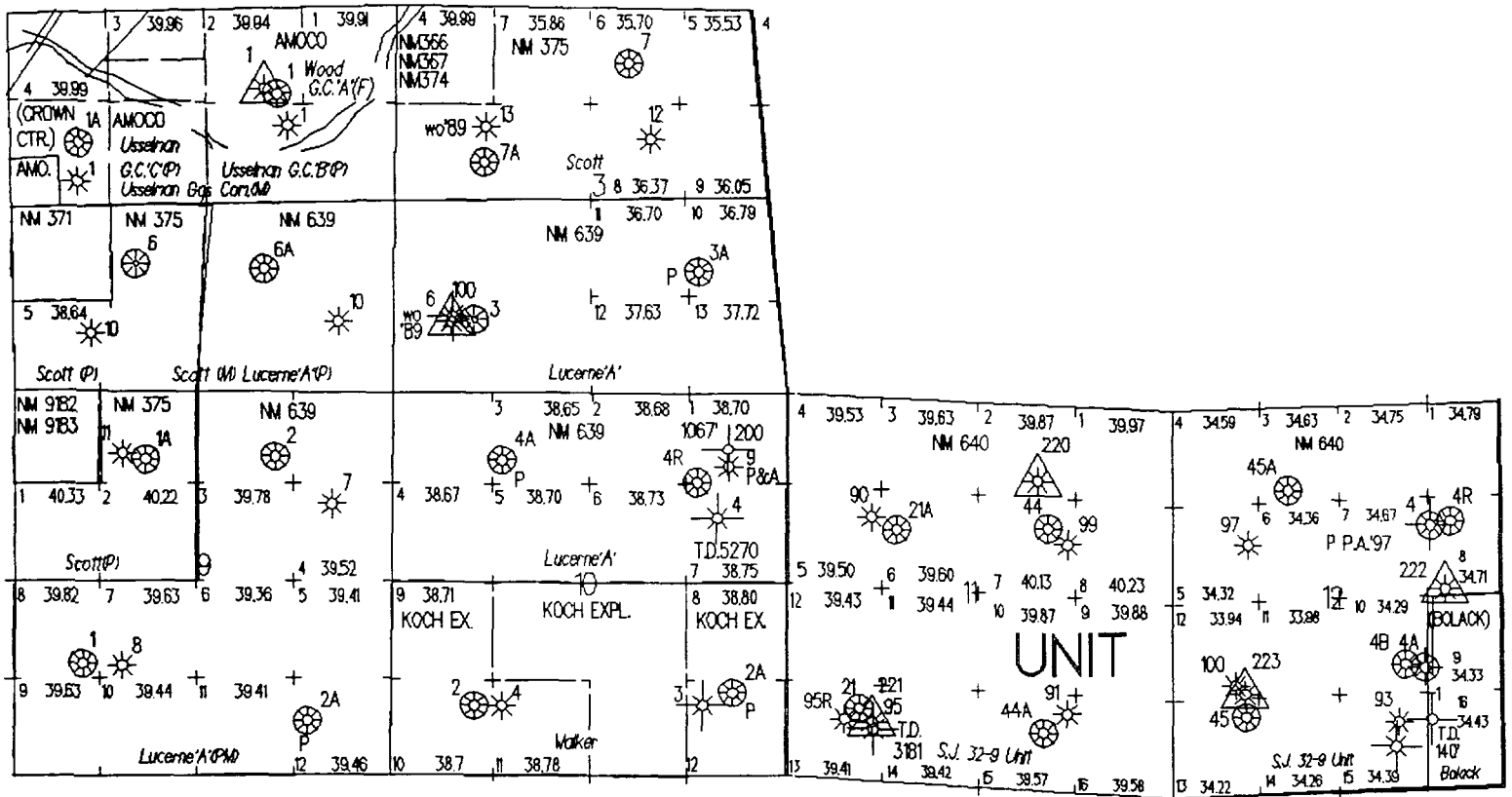
Name (Print):

Title (if Applicable): \_\_\_\_\_

# EXHIBIT "A"

## FARMOUT LANDS

SECTIONS 3, 4, 9, 10, 11 & 12, T31N, R10W  
SAN JUAN CO., NEW MEXICO



	FRUITLAND SAND WELL		MESAVERDE WELL
	FRUITLAND COAL WELL		DAKOTA WELL
	PICTURED CLIFFS WELL		GALLUP WELL

## EXHIBIT "B"

### FARMOUT LEASES

#### NM-639

OIL AND GAS LEASE DATED MARCH 1, 1951, BY AND BETWEEN USA, AS LESSOR, AND NEVA J. ROBERSON, AS LESSEE, RECORDED IN BOOK 158 AT PAGE 245 OF THE RECORDS OF SAN JUAN COUNTY, NEW MEXICO, AS SAID LEASE MAY HAVE BEEN AMENDED OR MODIFIED, INsofar AND ONLY INsofar AS SAID LEASE, AS AMENDED OR MODIFIED, COVERS THE FOLLOWING DESCRIBED LANDS SITUATED IN SAN JUAN COUNTY, NE MEXICO:

#### TOWNSHIP 31 NORTH, RANGE 10 WEST

SECTION 3: LOTS 10-13, SW/4 (S/2)  
SECTION 4: SE/4  
SECTION 9: LOTS 3-12, N/2 NE/4 (E/2, SW/4)  
SECTION 10: LOTS 1-7, NW/4 NW/4 (N/2)  
(CONTAINING 1,255.18 ACRES, MORE OR LESS)

#### NM-640

OIL AND GAS LEASE DATED MARCH 1, 1951, BY AND BETWEEN USA, AS LESSOR, AND NEVA J. ROBERSON, AS LESSEE, RECORDED IN BOOK 158 AT PAGE 245 OF THE RECORDS OF SAN JUAN COUNTY, NEW MEXICO, AS SAID LEASE MAY HAVE BEEN AMENDED OR MODIFIED, INsofar AND ONLY INsofar AS SAID LEASE, AS AMENDED OR MODIFIED, COVERS THE FOLLOWING DESCRIBED LANDS SITUATED IN SAN JUAN COUNTY, NE MEXICO:

#### TOWNSHIP 31 NORTH, RANGE 10 WEST

SECTION 11: LOTS 1-16 (ALL)  
SECTION 12: LOTS 1-8 & 10-15 (N/2, SW/4, W/2 SE/4)  
(CONTAINING 1,116.96 ACRES, MORE OR LESS)

***\* Insofar and only insofar as said lands and leases covers depths below the base of the Mesaverde Formation.***

***\* It is the intent of the Farmor to Farmout all their Leasehold, Right, Title and interest of Farmor's in the described lands and leases in this Exhibit "B", whether such Exhibit "B" fails to include or inaccurately sets forth the description of lands or interest under the subject lands and leases.***



EXHIBIT "C"

ASSIGNMENT OF OIL, GAS AND MINERAL LEASE

STATE OF NEW MEXICO     §

COUNTY OF SAN JUAN     §

KNOW ALL MEN BY THESE PRESENTS:

THAT \_\_\_\_\_, whose address is \_\_\_\_\_, hereinafter referred to as Assignor, in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, by these presents does hereby bargain, sell, convey, transfer, assign and deliver unto THAT BURLINGTON RESOURCES OIL & GAS COMPANY, whose address is 3535 E. 30th St., Farmington, NM 87402, hereinafter referred to as Assignee, all of Assignor's right, title and interest in that certain Oil, Gas and Mineral Leases described in Exhibit "A" attached hereto and made a part hereof.

Assignor accepts and reserves unto itself, its successors and assigns an overriding royalty equal to the difference between lease burdens and 20% all oil, gas and other minerals that are produced, saved and marketed from the lands covered by the oil, gas and mineral lease described on Exhibit "A".

This assignment is made subject to the following terms, provisions, and conditions:

I.

The overriding royalty herein reserved shall be computed in the same manner under the same conditions and circumstances as the lessor's royalty provided for in the lease to which it applies.

## EXHIBIT "C"

### II.

The overriding royalty herein reserved shall bear its proportion of all severance, production, gathering, ad valorem, windfall profit and similar taxes now or hereafter applicable thereto or affecting the same. In the event that the lease does not validly cover and affect all of the mineral rights in and under the property therein described, or in the event of a failure of the leasehold title to such property, the overriding royalty with respect to the acreage affected thereby shall be reduced proportionately.

### III.

No change or division of ownership of the overriding royalty herein reserved, or change in the capacity or status of Assignor, however accomplished, shall be binding on Assignee, nor impair the effectiveness of any payment made hereunder until ten (10) days after Assignee shall have been furnished a certified copy of the recorded instrument evidencing such change or division in ownership, or the change in the capacity or status of Assignor.

### IV.

Assignee shall have the right to pool or unitize the acreage and interest covered by the lease, including the overriding royalty herein reserved, without Assignor's joinder or consent, and as to any unit or units formed, whether by declaration, regulatory order or otherwise, the overriding royalty herein reserved shall, subject to the provisions of Paragraph II hereof, be computed only on the proportionate part of the production from such unit that is allocated to the land subject to said overriding royalty, and unless otherwise allocated by order of a regulatory body, the amount of production to be so allocated from each pooled unit shall be that proportion of such production that the surface area of the land affected hereby and included within such unit bears to the total surface area of all lands within such pooled unit.

### V.

Assignee assumes and obligates itself to comply with the terms, provisions and obligations of the lease, and agrees to protect the Assignor and to hold him harmless against any and all claims, demands and causes of action arising out of or in any way connected with operations conducted by Assignee under or pursuant to said leases.

## EXHIBIT "C"

### VI.

It is expressly agreed and understood that operations, if any, upon the leased premises and the extent and duration thereof, as well as the maintenance of said leases by rental payments or otherwise, shall be solely at the will and discretion of the Assignee, subject to the provisions of Article IX.

### VII.

This assignment and transfer is made without warranty of title, either express or implied, except for acts by, through and under Assignor and is made with subrogation and substitution and substitution to all of Assignor's rights and actions in warranty.

### X.

BURLINGTON RESOURCES OIL & GAS COMPANY, its successors or assigns, shall respond to, defend, indemnify and hold \_\_\_\_\_ harmless from and against any and all claims for damages and forfeiture made by any person or concern by reason of BURLINGTON's failure to comply with the express and implied obligations and covenants of the leases described in Exhibit "A" hereto, and shall indemnify and hold \_\_\_\_\_ harmless from and against any and all claims for damages and loss by reason of BURLINGTON's failure to comply with the express obligations of the agreement.

BURLINGTON shall hold harmless and indemnify and defend \_\_\_\_\_ from and against all losses, damages, plugging liabilities, claims and suits (including attorneys' fees and other expenses of litigation), even though groundless, false or fraudulent, on account of any loss or damage to owned, leased or contracted rights and related equipment, or injury, including death resulting therefrom, suffered by BURLINGTON, its agents and employees, or its contractors' and subcontractors' employees or third parties that arise from or relate to BURLINGTON's performance or non-performance or operations conducted hereunder. If any suit is filed on any such claim, BURLINGTON shall immediately notify \_\_\_\_\_ and permit \_\_\_\_\_ to participate in the defense thereof, this without waiver or impairment of BURLINGTON's indemnities to \_\_\_\_\_.

EXHIBIT "C"

It is agreed that with respect to any statutory limitations now or hereafter in effect and affecting the validity or enforceability of this indemnification provision, such statutory limitations are made a part of this indemnification provision with respect to work performed and operations conducted in the state in which such statute applies, and shall operate to amend this indemnification provision to the minimum extent necessary to bring this provision into conformity with the requirements of such statute, and as so modified, this provision shall continue in full force and effect.

IN WITNESS WHEREOF, this instruments is executed this \_\_\_\_\_ day of \_\_\_\_\_, 1997, with an effective date of April 1, 1997.

**ASSIGNOR:**

\_\_\_\_\_

BY: \_\_\_\_\_

**ASSIGNEE:**

BURLINGTON RESOURCES  
OIL & GAS COMPANY

BY: \_\_\_\_\_

Robert T. Kennedy, Attorney-in-Fact

## EXHIBIT "C"

## ACKNOWLEDGMENTS

[illegible]

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by Robert T. Kennedy, Attorney-in-Fact, of BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, for and on behalf of said corporation.

**Notary Public**

**My Commission Expires:**

\_\_\_\_\_

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STATE OF \_\_\_\_\_ )  
 ) ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1997, by \_\_\_\_\_,  
of \_\_\_\_\_, for and on behalf of said \_\_\_\_\_.

Notary Public

My Commission Expires:

[illegible]

**EXHIBIT "A"**

**LEASE DESCRIPTION TO BE ADDED LATER IN ACCORDANCE  
WITH THE TERMS AND CONDITIONS OF THE FARMOUT  
LETTER AGREEMENT DATED JUNE 6, 1997.**