

AUG 14 1997

BRISTOL
RESOURCES

Corporation

August 13, 1997

Chesapeake Operating, Inc.
Attention: Mr. Mike Hazlip, CPL
P.O. Box 18496
Oklahoma City, OK 73154-0496

Re: Kim #1 - 1 Well
S/2 SE/4 Section 1-T16S-R36E
Lea County, New Mexico

Dear Mike:

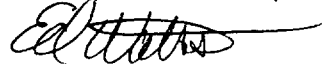
As per our telephone conversation of this morning, Bristol Resources Corporation is proposing to Farmout it's interest in the S/2 of the SE/4 of Section 1-T16S-R36E, Lea County, New Mexico to Chesapeake under the following terms and conditions:

1. On or before ninety days from the date of Chesapeake's receipt of a mutually acceptable Farmout Agreement from Bristol, Chesapeake would commence operations for an 11,900 ft. test well at it's proposed location in the SE/4 of the SE/4 of Section 1-T16S-R36E.
2. Upon completion of the test well as a producer Bristol will deliver to Chesapeake an assignment of Bristol's interest in the S/2 of the SE/4, Section 1-T16S-R37E from the surface down to and including 100 ft. below the depth of the deepest depth drilled.
3. Any assignment from Bristol to Chesapeake will deliver to Chesapeake a seventy-five percent (75%) net revenue interest assignment with Bristol reserving the difference between seventy-five percent (75%) and existing lease burdens as an overriding royalty. Additionally, upon payout of the test well, Bristol will have the right to convert it's retained overriding royalty to a twenty-five percent working interest, proportionately reduced to Bristol's interest or, in lieu of such conversion, Bristol may, at it's own discretion, alternatively elect to increase it's overriding royalty by an additional five percent (5%), proportionately reduced to Bristol's interest.

This terms and conditions of this proposal are not intended as an exclusive offer to Chesapeake and are subject to final management approval of Bristol Resources Corporation.

Should you have any questions or require additional information please feel free to contact me.

Yours very truly,
Bristol Resources Corporation


Ed Watts

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 11836 Exhibit No. 7
Submitted By:
Chesapeake Inc.
Hearing Date: August 21, 1997