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December 13, 1994

VIA FACSIMILE AND HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87503

Re: Case No. 11166
Application of Manzano Oil Corporation for an unorthodox oil well location,
Chaves County, New Mexico

Dear Mr. LeMay:

Manzano Oil Corporation opposes the motion of Marathon Oil Company to continue the hearing in the above-referenced case which is scheduled before Examiner Stogner on December 15, 1994.

Marathon filed a Pre-Hearing Statement on this date, in which it objects to the unorthodox location proposed by Manzano in this case and complains about the notice provided to it of this application.

In response to the matters raised by Mr. Kellahin in his Pre-Hearing Statement and Motion to Continue, I suggest that if he paid as much attention to his practice as he apparently does to mine, he would know that Marathon waived objection to this location by letter dated November 3, 1994, signed by C.E. Potter, Marathon's Exploration Manager in Midland.

William J. LeMay, Director
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Enclosed is a copy of Marathon's November 3rd letter. As you will see, in exchange for certain seismic data acquired by Manzano and its partner Sun Valley Energy Corporation, Marathon agreed that it would not oppose any unorthodox location requested by Sun Valley on the acreage which is the subject of this case.

Manzano and Sun Valley Energy Corporation expect Marathon to honor this agreement and oppose Marathon's Motion to Continue the hearing on this application.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr", with a long, sweeping horizontal line extending to the right.

WILLIAM F. CARR

WFC:mlh

cc: Rand Carroll
Michael E. Stogner
David Catanach
W. Thomas Kellahin, Esq.

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

November 3, 1994

Sun Valley Energy Corporation
108 East Third St., Ste. 406
Roswell, New Mexico 88201

Attention: Larry Hunnicutt

Re: Our Lease NM-5123 - U.S. Lease NM-62195
S/2 Section 23, N/2 SW/4 Section 26,
T-13-S, R-29-E, N.M.P.M.,
Chaves County, New Mexico

Gentlemen:

Pursuant to negotiations relative to Marathon Oil Company's acreage as depicted on the attached Exhibit "A", Marathon Oil Company (Marathon) is willing to offer Sun Valley Energy Corporation (Sun Valley) the following:

1. Sun Valley has completed acquisition of a 3-D seismic program over acreage which includes the referenced Marathon acreage. Sun Valley will provide to Marathon the following seismic data inasmuch as said data covers the acreage illustrated on the attached Exhibit "A":
 - One (1) mylar and paper shotpoint base map.
 - One (1) conventionally displayed black and white paper section (Migrated Stack) for every (5th) north-south and east-west line in the data set.
 - One (1) copy of the original field tapes and support data including observer's reports.
 - One (1) copy of all finalized versions of processing in SEG-Y format on 8-MM cassette with information on the coordinate system to convert from Lat.-Long to X-Y and the coordinates of all corners of the survey adequate for loading on a Landmark workstation.
2. For a period of two (2) years from the date of this agreement, all geophysical data and interpretations obtained hereunder shall be deemed as confidential and shall not be disclosed to any third party without prior mutual written consent from Marathon and Sun Valley. Notwithstanding the above, disclosure of such geophysical data may be made without permission to:

Sun Valley Energy Corporation**November 3, 1994****Page -2-**

- a. A parent company;
- b. A wholly-owned subsidiary;
- c. A surviving company in the event of a merger;
- d. One or more consultants to interpret such information;
- e. Reputable financial institutions for study, prior to commitment of funds sought by the disclosing party, but the data so made available shall not be removed from the custody or premises of the party making it available to such financial institutions; and
- f. A third party with a bonafide interest in a farmout or joint venture proposed by the disclosing party, but the data so made available shall not be removed from the custody or premises or the disclosing party.

However, such parent company, subsidiary, surviving company, consultants, financial institution, or farmee, before receiving such information, shall agree in writing to keep such information strictly confidential and not disclose the same to any other person or firm without prior written consent from Marathon and Sun Valley.

3. Upon receipt of the data detailed in paragraph No. 1. above, Marathon will assign to Sun Valley fifty percent (50%) of its interest in and to the leases, and acreage, listed and depicted in Exhibit "A". Marathon will deliver an eighty percent (80%) net revenue interest, proportionately reduced, to the assigned interest.
4. Should Sun Valley propose a well on Marathon acreage, or on acreage to be pooled with Marathon acreage, Sun Valley will allow Marathon representatives the opportunity to review the entire 3-D program and information at Sun Valley's office in Roswell, New Mexico. This opportunity will exist for five (5) business days from receipt by Marathon of a well proposal from Sun Valley which involves Marathon acreage. Marathon will have the option to participate in the proposed well as to its 50% W.I., or farmout to Sun Valley said 50% W.I. delivering a 75% NRI, utilizing Marathon's standard form farmout letter agreement. Marathon's election will be subject to a thirty (30) day time period which will commence the day Marathon begins its review of the 3-D data in Sun Valley's office. Sun Valley's well proposal shall also include an AAPL Model Form Operating Agreement (1982 or 1989 Model Form) listing Sun Valley as operator and Marathon as non-operator, with execution of the agreement to be at such time as the terms of said agreement have been mutually agreed upon.
5. Should Sun Valley or Marathon acquire any lease within the area depicted on the attached Exhibit "A" that expires during the effective term of the aforementioned Joint Operating Agreement, such acquiring party shall offer to the other the opportunity, exercisable within fifteen (15) business days of receipt of notice of lease acquisition, to purchase, at its proportionate share of the actual cost, its

Sun Valley Energy Corporation

November 3, 1994

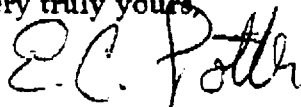
Page -3-

interest in said lease with the interest of the parties being Marathon - 50% and Sun Valley 50%, subject to any existing reservations or agreements.

6. Marathon will not oppose any unorthodox location requested by Sun Valley for the initial well drilled within the boundary shown on the attached Exhibit "A" and labeled as the 3-D Seismic Program Outline.
7. Should any provision of this agreement conflict with a provision of any prior agreement between Marathon and Sun Valley, the provisions of this agreement will be deemed to be controlling.

This offer is subject to final management approval and may be withdrawn without notice. If the above terms are acceptable, please indicate your acceptance by signing in the space provided below and returning one (1) copy to this office for our further handling. If there should happen to be any questions regarding this matter, please call Mr. Randal Wilson, Landman, at 1-800-351-1417, extension 8476.

Very truly yours,



E. C. Potter
Exploitation Manager

ECP/RPW:mmc'

AGREED TO AND ACCEPTED this 8th day
of November, 1994.

SUN VALLEY ENERGY CORPORATION

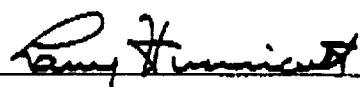
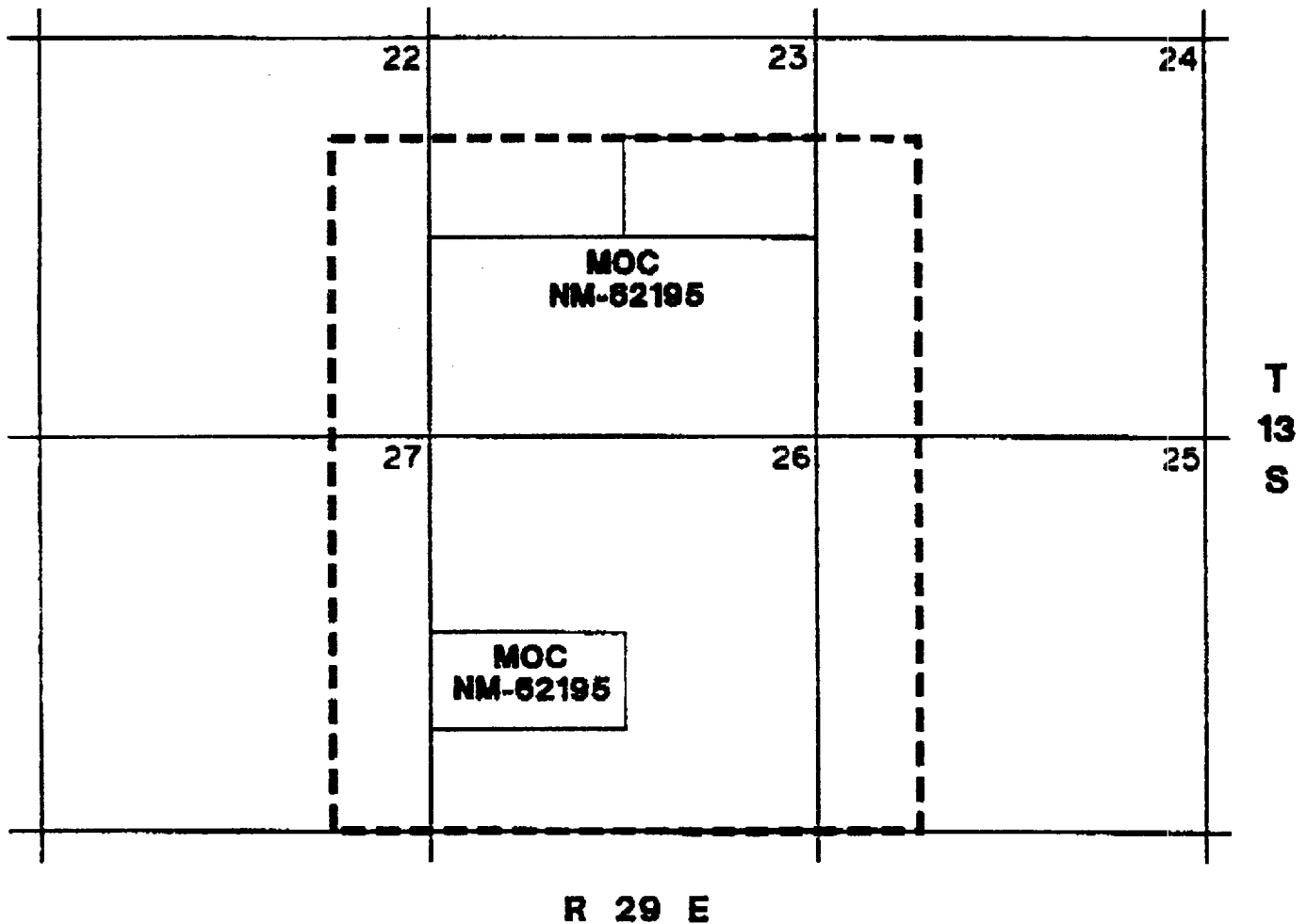

By: _____
Its: President

EXHIBIT "A"

**ATTACHED TO AND MADE PART OF LETTER AGREEMENT
DATED , 1994, BETWEEN MARATHON OIL COMPANY
AND SUN VALLEY ENERGY CORPORATION**



MARATHON OIL COMPANY LEASEHOLD

MOC LEASE NM-5123 - U.S. LEASE NM-62195

--- 3-D SEISMIC PROGRAM OUTLINE

**MARATHON OIL COMPANY
MID-CONTINENT REGION**

**NORTH KING CAMP
PROSPECT**

CHAVES COUNTY, NEW MEXICO