

NSL 7/7/97



Manzano Oil Corporation

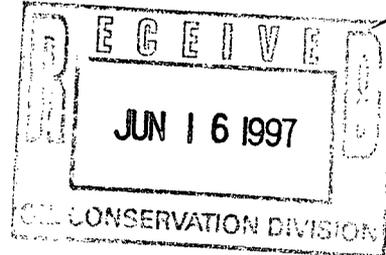
P.O. Box 2107
Roswell, New Mexico 88202-2107
(505) 623-1996
FAX (505) 625-2620

Talked to

*Debbie
Jeffers*

May 6, 1997

NSL OIL 2/19



*Re faxing
permit
agreement
and waiver
letter from
Devon.*

William J. LeMay
New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87504-2088

Re: Application of Manzano Oil Corporation for Administrative Approval of an Unorthodox Well Location Pursuant to NMOCD Rule 104(F)

Dear Mr. LeMay:

S. Vacuum Devonian Pool

Pursuant to NMOCD Rule 104(F), Manzano Oil Corporation requests administrative approval of an unorthodox well location in the S/2NW/4 of Section 22, Township 18 South, Range 35 East. Manzano proposes to drill its "SV" Honey Bee State No. 1 Well at an unorthodox location 2372 feet from the North line and 994 feet from the West line of Section 22. The well will be drilled to a depth of approximately 12,000 feet to the Devonian formation, South Vacuum Devonian Pool.

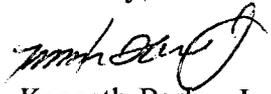
Manzano seeks an unorthodox location for geologic reasons. Exhibit 1 (Structure Map - Top of Devonian) shows the 3-D seismic structural picture of the top of the Devonian Formation. The proposed unorthodox location is predicted to be at or near the crest of a potentially undrained portion of the South Vacuum Devonian structural complex. The 3-D predicts that only 75-100 feet of closure are present over an area of 65-80 acres. Moving the proposed location to an orthodox location could result in a loss of structure of nearly 50 feet, leaving a substantial amount of attic oil unrecovered. This attic oil column is not recoverable from any orthodox location. In order to insure adequate drainage of this small structure and to prevent waste, Manzano Oil Corporation is requesting that it be allowed to drill the "SV" Honey Bee State #1 in the proposed unorthodox location.

Also enclosed is a plat which shows the ownership of all leases offsetting the proposed spacing unit and all wells that have been completed thereon. Manzano has provided notice of this application all of the operators of the offsetting units or working interest owners by certified mail. Copies of the letters to the offsetting operators or owners are attached hereto.

May 6, 1997
Page 2

Thank you for your consideration to this application. Please call me if you have any questions in this regard.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth Barbe, Jr.", written in a cursive style.

Kenneth Barbe, Jr.

Enclosures

List of Affected Parties

Devon Energy Corporation (Nevada)
20 North Broadway, Suite 1500
Oklahoma City, OK 73102-8260

McClair
Lea
10946
2-7-403

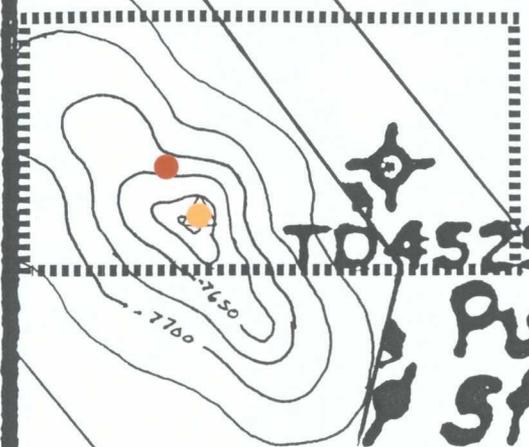
R

TD11,200

2-401 21

22

5



TD4525

Pure
State

TD11978

2-403

TD4975

Two

28

TD5590

1-403

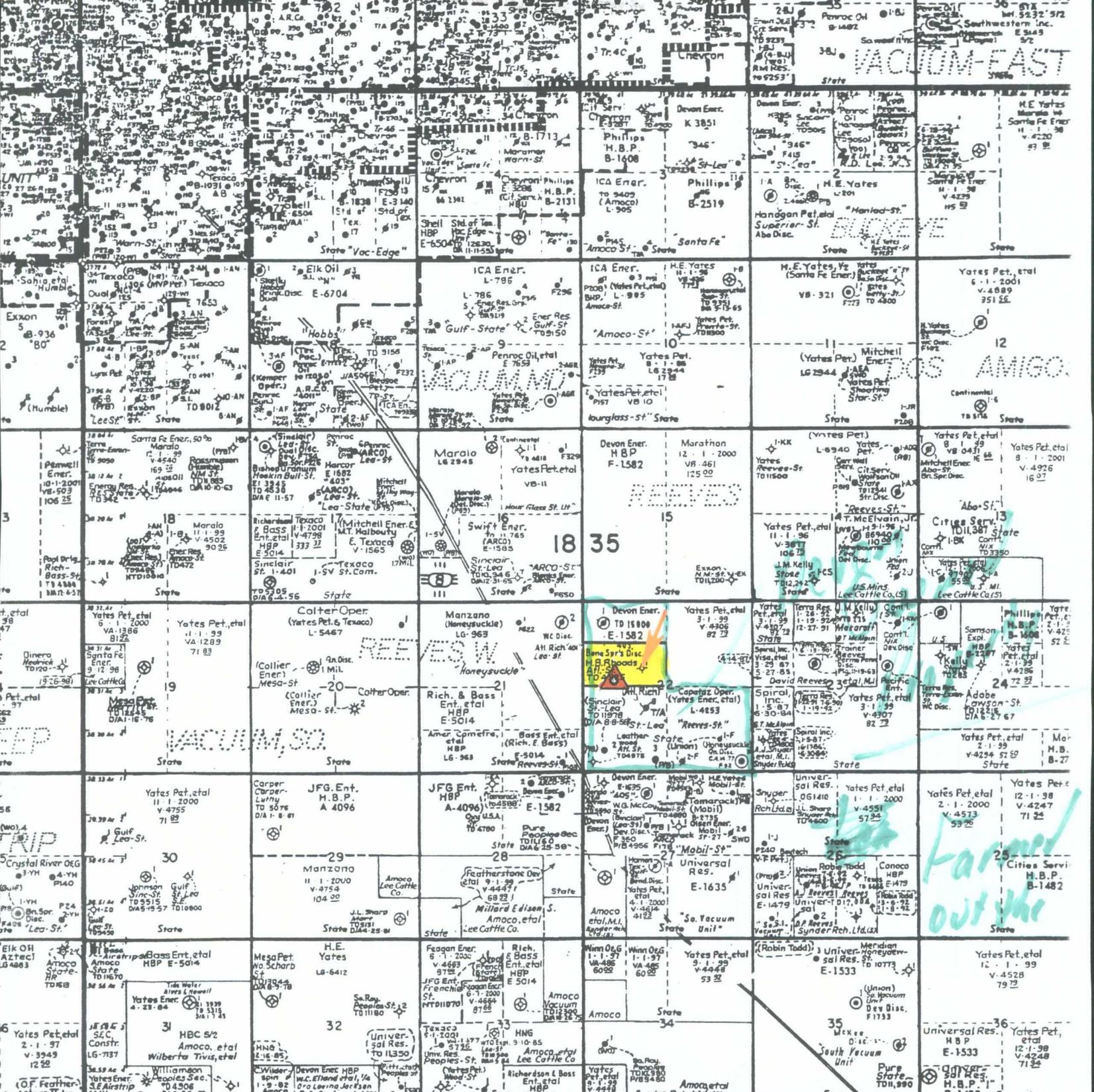
27
TD5513

MANZANO OIL CORPORATION
"SV" HONEY BEE #1

- UNORTHODOX LOCATION
- ORTHODOX LOCATION

STRUCTURE MAP
TOP OF DEVONAIN

Sec. 5
1160




SUNVALLEY ENERGY CORPORATION
 &
MANZANO OIL CORPORATION

MANZANO "SV" HONEYBEE STATE #1
 2372' FNL & 994' FWL
 SECTION 22, T18S,R35E
 LEA COUNTY, NEW MEXICO

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
PO Drawer DD, Artesia, NM 88211-0719
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
PO Box 2088
Santa Fe, NM 87504-2088

Form C-101
Revised February 10, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 6 Copies
Fee Lease - 5 Copies

AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address: Manzano Oil Corporation P.O. Box 2107 Roswell, NM 88202-2107		OGRID Number 013954
		API Number 30 - 0
Property Code	Property Name "SV" Honey Bee State	Well No. 1

⁷ Surface Location

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
E	22	18S	35E		2372	North	994	West	Lea

⁸ Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
E	22	18S	35E		2372	North	994	West	Lea

⁹ Proposed Pool 1 Devonian	¹⁰ Proposed Pool 2
--	-------------------------------

¹¹ Work Type Code N	¹² Well Type Code 0	¹³ Cable/Rotary R	¹⁴ Lease Type Code S	¹⁵ Ground Level Elevation 3909'
¹⁶ Multiple No	¹⁷ Proposed Depth 12,000'	¹⁸ Formation Devonian	¹⁹ Contractor WEK Drlg	²⁰ Spud Date 7/15/97

²¹ Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	54.5#	400'	350 sks	Surface
11"	8-5/8"	32#	4,000'	1000 sks	2000'
7-7/8"	5-1/2"	17 & 20#	12,000'	To be designed	600' above top pay

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Drill to 12,000'. Possible DST's in Wolfcamp, Strawn & Devonian. Run open hole logs @ TD. Run production casing if justified.

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		OIL CONSERVATION DIVISION	
Signature: Allison Hernandez			
Printed name: Allison Hernandez		Title:	
Title: Engineering Technician		Approval Date:	Expiration Date:
Date: 5/1/97	Phone: (505) 623-1996	Conditions of Approval: Attached <input type="checkbox"/>	

District I
 PO Box 1960, Hobbs, NM 88241-1960
 District II
 PO Drawer DD, Artesia, NM 88211-0719
 District III
 1000 Rio Brazos Rd., Aztec, NM 87410
 District IV
 PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico
 Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
 PO Box 2088
 Santa Fe, NM 87504-2088

Form C-102
 Revised February 10, 1994
 Instructions on back
 Submit to Appropriate District Office
 State Lease - 4 Copies
 Fee Lease - 3 Copies

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Pool Code		Pool Name	
Property Code	Property Name			Well Number	
	"SV" Honeybee State "SV" Honey Bee State			1	
OGRID No.	Operator Name			Elevation	
013954	Manzano Oil Corporation			3909	

¹⁰ Surface Location

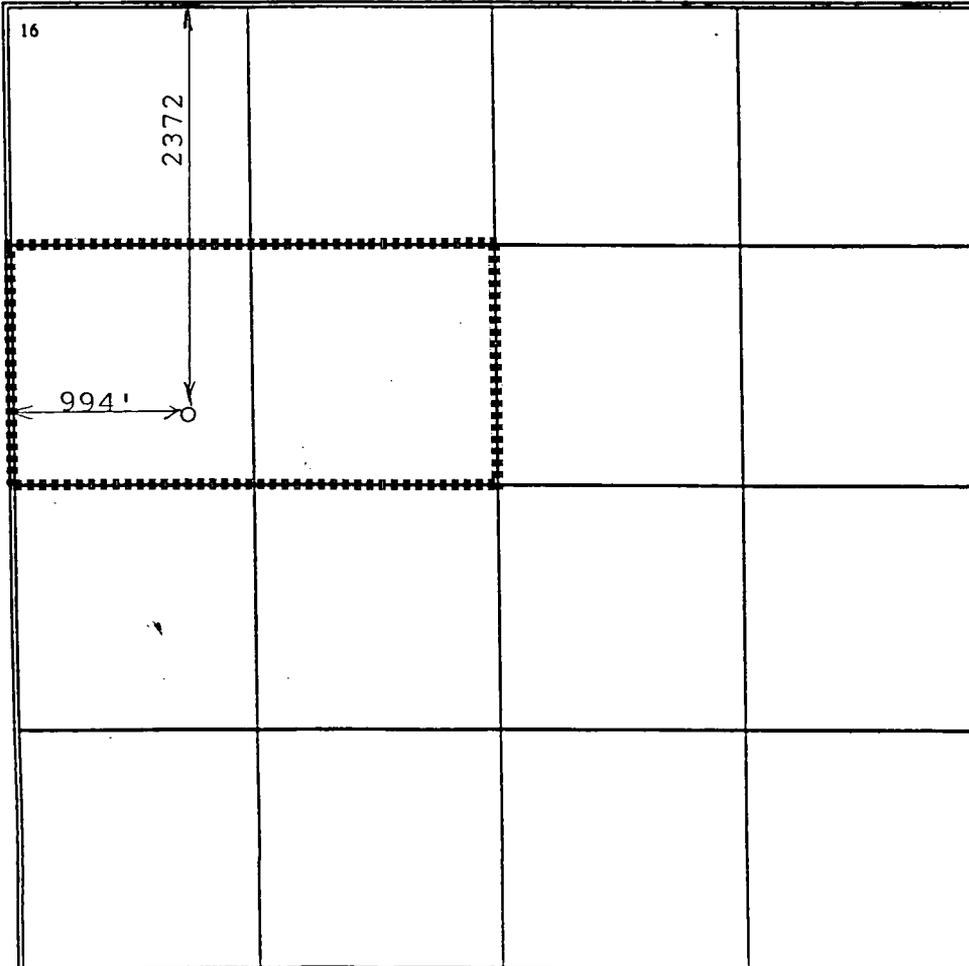
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
E	22	18 S	35 E		2372	North	994	West	Lea

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
80			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



¹⁷ OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief

Allison Hernandez
 Signature
 Allison Hernandez
 Printed Name
 Engineering Technician
 Title
 May 1, 1997
 Date

¹⁸ SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

April 29, 1997
 Date of Survey
 P. R. Patton
 Signature and Seal of Professional Surveyor:

Certificate Number 8112



Manzano Oil Corporation

P.O. Box 2107
Roswell, New Mexico 88202-2107
(505) 623-1996
FAX# (505)-625-2620

TO: Michael Stogner
FROM: Debi Jeffers
DATE: 7/2/97

NUMBER OF PAGES (including this cover sheet) 13

MESSAGE:
I'm not sending Exhibit "B" - Operating
Agreement. Let me know if you
need anything else.

(505) 827-1389



RECEIVED

JUN 16 1997

Manzano Oil Corporation

P.O. Box 2107

LAND DEPARTMENT

Roswell, New Mexico 88202-2107

(505) 623-1996

FAX (505) 625-2620

CERTIFIED MAIL

RETURN RECEIPT

May 6, 1997

Devon Energy Corporation (Nevada)
20 North Broadway, Suite 1500
Oklahoma City, OK 73102-8260

Attn: Mr. Ken Gray

Re: "SV" Honey Bee State #1
Lea County, New Mexico

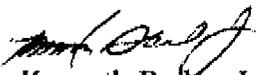
Gentlemen:

Manzano Oil Corporation has recently filed a permit to drill the "SV" Honey Bee #1 well with the New Mexico Oil Conservation Division (OCD). The well will be drilled to 12,000 feet to test the Devonian formation within one (1) mile of OCD designated South Vacuum Devonian Pool. Field rules require that each well be within 150 feet of the center of a governmental quarter-quarter section. Our proposed location of 2372' FNL and 994' FWL of Section 22, T-18-S, R-35-E, is thus unorthodox and must be granted an exception to the spacing rules. Under the 104.F(2) the OCD may grant administrative approval if the lessees of the offsetting leases, to which the well will encroach, waive objection to the proposed location.

A successful response from you will eliminate the necessity to conduct a full OCD hearing on this matter and expedite our efforts. However if you object to the location, your expression of opposition must be filed with the OCD within twenty (20) days from the date this notice was mailed.

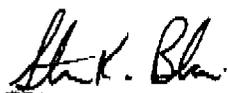
We therefore request you waive objection to the drilling of the "SV" Honey Bee State #1 at the proposed location and evidence your acceptance by executing and returning a copy of this letter to me at the above address.

Sincerely,


Kenneth Barbe, Jr.

AGREED AND ACCEPTED THIS 19 DAY OF JUNE, 1997.

enc: APD C-101
OCD application
land plat
list of affected parties


STEVEN K. BLAIR
Manager Outside Operations
DEVON ENERGY CORPORATION (NEVADA)

devon**ENERGY CORPORATION**20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260Telephone: 405/235-3611
FAX 405/552-4550

February 4, 1997

Manzano Oil Corporation
P. O. Box 2107
Roswell, NM 88202-2107**Re: Farmout Agreement
NW/4 and N/2 SW/4
Section 22-T18S-R35E
Lea County, New Mexico****FARMOUT AGREEMENT**

Gentlemen:

This will evidence the agreement between Devon Energy Corporation (Nevada) (hereinafter referred to as "Devon"), and Manzano Oil Corporation (hereinafter referred to as "you or your"), whereby Devon, subject to the terms and conditions of this Agreement, agrees to assign certain interests, as hereinafter provided, in and to the Oil and Gas Lease and/or other rights (the "Lease") set out in Exhibit "A" which is attached hereto and made a part hereof for all purposes (the "Farmout Area").

1.

1.1 You are obligated, as a primary consideration of this Agreement, to commence the actual drilling of a well, hereinafter referred to as the "Test Well" on or before July 15, 1997, to be located at a legal location in the SW/4 NW/4 of Section 22-T18S-R35E, Lea County, New Mexico. You shall drill the Test Well in a good and workmanlike manner and with due diligence to a depth sufficient to test the Devonian formation, expected to be encountered at a depth of approximately 12,000 feet, hereinafter referred to as the "Objective Depth." You agree to complete the Test Well within ninety (90) days from commencement of same by plugging and abandoning same according to all rules and regulations of applicable governmental entities having jurisdiction or by equipping said well for production of oil and/or gas in commercial quantities. In the event you intend to drill to a depth below the Objective Depth, prior to conducting such drilling operation, you shall obtain the express written consent of Devon, and without such consent you are expressly denied any rights to any interest below the Objective Depth.

1.2 Should you fail to reach the depth set forth above due to encountering igneous rock, domal material, heaving shale, salt water flow or other impenetrable formations which conditions would render further drilling impracticable after twenty-four (24) hours of diligent effort, you shall have the option, within thirty (30) days of the date that conditions render further drilling

Page 1 of 10

impracticable to commence a substitute well at a location mutually agreeable in writing by the parties within the SW/4 NW/4 of said Section 22. In the event you elect to drill such substitute well, you agree to prosecute the drilling and testing of said substitute well to the same depth and subject to the same conditions that are herein provided for the Test Well, and such substitute well shall, for the purpose hereof, be treated as if it were the Test Well. Except as provided for in Section 1.4, any well drilled under this Agreement which is not completed as a well capable of commercial production shall be plugged and abandoned and the surface restored at your sole risk and expense in accordance with applicable laws, the terms of the Lease and the rules and regulations of the governmental authority having jurisdiction.

1.3 Subject to the provisions of paragraph 3.2, the cost of drilling, completing and equipping any well, and all other costs and expenses incurred in connection with developing and operating the Farmout Area, shall be borne by you or your successors and assigns. You or your successors and assigns agree to indemnify, defend and save Devon harmless from and against any and all claims, demands, causes of action and judgments of whatsoever nature (and all costs and fees, including reasonable attorney's fees, in connection with same) arising in favor of any party (including you, your employees, Devon's employees and any other party whomsoever) for or on account of personal injury, death, property damage or for any other reason whatsoever, incident to or arising, in whole or in part, directly or indirectly, from your operations hereunder. You shall also pay Devon for all damages to its property and shall indemnify, defend and save Devon harmless from and against any and all liens, claims and encumbrances against its property, including all costs and fees, including reasonable attorney's fees, in connection with same, (and from and against the payment or satisfaction of same) arising directly or indirectly from or incident to, your operations hereunder. Devon, at its option (exercisable at any time and from time to time), may participate in the defense of any such claims or causes of action without relieving you of any of your obligations under this indemnity.

You represent and warrant that you have conducted an environmental audit and due diligence investigation of the Farmout Area and find that as of the date of this Agreement there are no hazardous or deleterious substances on or under the Farmout Area; that no saltwater pollution or contamination of the surface, surface waters and subsurface fresh waters of the Farmout Area have occurred; and, that there are as of the date of this Agreement no violations of federal, state or local environmental laws or regulations with respect to the Farmout Area. You, your successors and assigns, also represent and warrant that you will drill, develop and operate such well in accordance with all applicable environmental laws and regulations; that you will not allow any saltwater, deleterious substances, or hazardous substances to pollute or contaminate the surface, surface waters, subsurface or subsurface fresh waters; and that no saltwater, deleterious substances or hazardous substances will be disposed of on or under the Farmout Area.

Without limiting any other indemnity provided in this Agreement, you, your successors and assigns, agree to jointly and severally protect, indemnify, defend and hold Devon, its successors and its employees, harmless from and against any and all costs, expenses (including attorneys' fees), fines, penalties, claims, demands, causes of action, judgments, and decrees of whatsoever nature, whether known or unknown, arising in favor of any party (including you, your employees, Devon's employees and any other party whomsoever) for or on account of any violation by you, your successors or assigns, of federal, state or local environmental laws and regulations; for or on account of any pollution or contamination of the surface, surface waters,

subsurface or subsurface fresh waters of the Farmout Area, or for pollution or contamination of the surface, surface waters, subsurface or subsurface fresh waters of lands outside the Farmout Area but caused by you, or your successors and assigns', operations hereunder; and for or on account of the use, disposal or cleanup of saltwater, deleterious substances, hazardous substances, or solid waste on or under the Farmout Area. Devon, at its option (exercisable at any time and from time to time) may participate in the defense of any such claims or causes of action without relieving you of any of your obligations under this indemnity.

1.4 Prior to you abandoning any well on the Farmout Area under circumstances when you do not have the right to drill a substitute well thereon or having such right, do not elect to drill such a substitute well, Devon shall have the option, subject to the rights of third parties, within 48 hours after written or verbal notice of your intention to so abandon (exclusive of Saturdays, Sundays, or legal holidays) to take over any such well for additional testing, deepening and/or completing. If the well is taken over by Devon for the purposes expressed above, all of your rights, obligations, and liabilities hereunder in the Farmout Area (except as to lands included in an established spacing or proration unit upon which is located a well capable of producing in paying quantities) shall automatically revert to Devon, and to the extent you may do so without violating prior contract obligations, you shall convey all of your rights in and to all lands lying within the spacing or proration unit upon which such abandoned well is located and all of your interest in and to the well, the material and equipment located therein, thereon, or appurtenant thereto which Devon desires to acquire, same to be free and clear of all liens, additional overriding royalty interests, production payments or similar encumbrances of whatsoever nature which may have been placed thereon, created or caused by any action of you or by any person, party or entity claiming by, through or under you.

If the well is taken over by Devon, Devon will pay you the reasonable salvage value in all such salvageable materials and equipment in the hole which you have contributed, less the estimated cost of removing and/or recovering same. You shall bear all expenses, including rig stand-by time, up to the time of actual take-over within such 48 hour period. If Devon does not elect to take over such well, then you shall properly plug and abandon same and restore the surface estate in accordance with section 1.2 hereof and your rights hereunder shall remain in full force and effect.

2.

2.1 In the event the Test Well is drilled and completed by you under the terms of this Agreement as a producer of gas and/or oil in commercial quantities and if you have otherwise complied with the terms and conditions of this Agreement, Devon will deliver, within thirty (30) days after written request by you, an assignment of all of Devon's right, title and interest, without warranty, either express or implied, in and to the Lease insofar as said Lease covers the oil, gas and mineral rights in and to the lands specifically described in said Exhibit "A". Subject to the provisions of paragraph 1.1 hereof, the interest assigned in and to said Lease shall be limited to the interval from the base of the Queen formation to 100' below total depth drilled in the Test Well and shall be for so long as oil and/or gas is being produced in paying quantities. The interest assigned shall be further limited to the spacing or proration unit established or prescribed by field rules or special order of the New Mexico Oil Conservation Division. Devon shall reserve in such assignment an overriding royalty interest in and to all production attributable to the interest in

such Lease assigned equal to the difference between existing lease burdens and 25%. Said overriding royalty interest in such Lease assigned shall be delivered to the credit of Devon into the pipeline or lines or tanks to which the well or wells on said assigned lease premises may be connected free and clear of all costs and expenses except taxes on production and Devon hereby retains the right at any time and from time to time to take in kind and separately dispose of its share of production. If and when production in paying quantities no longer exists on the Farmout Area and/or your wells have been plugged and abandoned according to the terms of this Agreement, you shall re-assign to Devon the interest assigned to you hereunder in the Lease which is valid and subsisting by its own terms. If all or any part of the Lease described on Exhibit "A" is renewed, extended or force pooled in support of any well, then the rights, title or interest reserved by Devon under this Agreement shall apply to such renewed, extended or force pooled Lease.

2.2 In the event the Lease herein provided to be assigned covers less than the full undivided interest in the oil, gas and other minerals in the Farmout Area, or if Devon owns less than the full working interest in the Lease in the Farmout Area, then the overriding royalty interest reserved by Devon shall be reduced proportionately.

2.3 Upon the occurrence of "Payout", as hereinafter defined, of the Test Well or any subsequent well drilled by you subject to this Agreement, you shall so notify Devon in writing and Devon shall have a 30 day option upon receipt of such notice from you, on a well-by-well basis, to convert its overriding royalty interest to a proportionate 25.00% working interest in and to such well, together with all the equipment located thereon or used in connection therewith, and to the production therefrom. For purposes of this Agreement, the term "Payout" shall mean that point in time when you shall have recovered from your proportionate share of gross proceeds received from an arm's length sale of production from each respective well after deducting therefrom your proportionate share of applicable ad valorem, production, severance and windfall profits taxes and the royalties and other burdens against the leasehold estate pertaining to each respective well as shown on Exhibit "A" existing as of the date of this Agreement (including but not limited to the overriding royalty interests and reversionary interests herein provided to be reserved by Devon), an amount equal to your actual cost of drilling, testing, completing, equipping, reworking, recompleting, producing and operating each respective well, less any cash contributions and insurance reimbursements received on account thereof, attributable to the Lease assigned hereunder or the wells associated therewith. Failure of Devon to timely give you written notice of its election shall be deemed an election not to so convert.

2.4 You shall furnish to Devon, within sixty (60) days after completion of any well subject to this Agreement, a statement showing by category and classification the total costs incurred in the drilling and completion of such well. You shall also furnish written quarterly reports to Devon on January 1st, April 1st, July 1st and October 1st of each year as to the status of Payout of such well.

2.5 In the event that Devon elects to convert its overriding royalty interest to a working interest in such well, you shall forthwith reassign to Devon, on a form acceptable to Devon, the hereinabove specified undivided working interest in and to such well, together with all personal property, materials and equipment situated therein and thereon or used in connection therewith;

and thereupon Devon shall be entitled to its pro rata share of the production attributable to its working interest in such well, then situated thereon or on lands pooled therewith.

2.6 Any such reassignment to Devon shall be free and clear of all liens and encumbrances, if any, which may have been placed upon the lands and Lease covered thereby and the production therefrom. The effective date of any such reassignment shall be 7:00 a.m. local time on the day following the date on which Payout is achieved. Effective the date of such reassignment, the parties shall enter into an AAPL Form 610-1982 Joint Operating Agreement on the form provided in Exhibit "B" attached hereto. In the event of a conflict between this Farmout Agreement and the Joint Operating Agreement, this Farmout Agreement will govern.

3.

3.1 In the event the Test Well is drilled and completed by you as a producer of gas and/or oil in commercial quantities, and if you have otherwise complied with the terms and conditions of this Agreement, you shall have the option but not the obligation to conduct a continuous drilling program on the Farmout Area with not more than 120 days elapsing from drilling rig release on one well and commencement of the next succeeding well. In the event that a well is drilled and completed by you under the terms of this continuous drilling option as a producer of gas and/or oil in commercial quantities, Devon will deliver an assignment to you under the same terms and conditions as provided in paragraph 2.1 through 2.6 of this Agreement.

3.2 For the purpose of this paragraph, the term "earned acreage" means that portion of the Farmout Area in which you have earned all of Devon's interest subject to an overriding royalty interest retained by Devon; and the term "additional well" means each additional well you drill or participate in drilling on earned acreage. In the event such additional wells are contemplated on earned acreage prior to payout of the initial well on the earned acreage, you shall notify Devon in writing of your intention to drill or participate in the drilling of such additional well at least 60 days before such drilling commences. Within 45 days after receipt of such notice, Devon shall notify you in writing of Devon's election either (1) to have its overriding royalty interest, with conversion rights at payout, apply to the additional well in the same manner (but with separate payout accounts) as such interest applies to the initial well on the earned acreage; or (2) to participate as a working interest owner in the additional well from the commencement thereof. Devon's election and the consequences thereof (including the calculation of payout) shall apply separately to each additional well. If Devon elects to participate in the additional well as a working interest owner, you shall promptly reassign to Devon all the interest Devon would otherwise have been entitled to receive upon payout of the initial well on the earned acreage, except (1) your interest in the initial well on the earned acreage and all equipment attributable thereto; (2) your interest in any previously drilled additional well (and equipment attributable thereto) in which Devon elected an overriding royalty interest with conversion rights, but which has not yet reached payout; and (3) your interest in any previously drilled additional well (and equipment attributable thereto) in which Devon elected an overriding royalty interest with conversion rights, and which has reached payout but Devon has not converted its overriding royalty interest to a working interest. Reassignments by you hereunder shall be free and clear of all royalties, overriding royalties and other payments out of production, and all claims, liabilities and other encumbrances except those in existence as of the effective date of this Farmout Agreement. If Devon elects to participate in the additional well as a working interest owner, then

as between Devon and you all such operations shall be governed by the Joint Operating Agreement prescribed in paragraph 2.6 of this Farmout Agreement.

4.

Prior to the commencement of any drilling operations on the Farmout Area, and for as long as this Agreement remains in effect, you shall provide and maintain, or cause to be provided and maintained, in force the following insurance and furnish Devon certificates of same:

1. Worker's Compensation and Occupational Disability Insurance as required by the law of the state or states in which operations will be conducted.
2. Employer's Liability Insurance as required by the laws of the state or states in which operations will be conducted.
3. Contractor's or Comprehensive General Public Liability Insurance, including products liability insurance, with limits of not less than \$1,000,000 applicable to bodily injury, sickness or death in any one occurrence and \$1,000,000 for loss of or damage to property in any one occurrence and \$2,000,000 aggregate limit applicable to all loss of or damage to property during the policy period.
4. Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than \$1,000,000 applicable to bodily injury, sickness or death of each person and \$1,000,000 for loss of or damage to property in any one occurrence.

5.

In drilling a well hereunder, you agree:

1. To conduct all operations in accordance with approved and accepted practices prevailing in the field where the well is drilled.
2. To make adequate evaluation and tests to determine if the well is capable of producing oil or gas from any formations encountered.
3. To accord Devon the freedom of the derrick floor and full and free access to the well and the records thereof at any and all times, at Devon's own risk and expense.
4. To give Devon reasonable notice in sufficient time to have a representative present before any testing, coring or logging of a prospective oil and/or gas zone.
5. To furnish, or cause to be furnished, Devon, without cost, the following reports, data and information:

DURING THE DRILLING OF WELLS

- (a) Daily written drilling report, giving the nature of all work done and depth and formations penetrated, beginning with the date actual work is commenced at the location and continuing until initial daily potential has been established, or, if a dry hole, the well has been plugged and abandoned.
- (b) Formation samples if such samples are taken.
- (c) Water samples, upon request.

UPON COMPLETION OF WELLS

- (d) A log and history of the well (well record and formation record).
- (e) Two field prints and two final prints of any logs run in said well.
- (f) Copies of the plugging record required by the government office or body having jurisdiction in the premises, if the test is a dry hole.
- (g) Two copies of any core analysis and two copies of any core report.
- (h) Two copies of any bottom hole pressure taken.
- (i) Two copies of any additional survey, if run.
- (j) Two copies of drill stem tests, if taken.
- (k) Two copies of Gas/Oil Ratio Tests, if taken.
- (l) Two copies of open flow potential and shut-in tests, if gas well.
- (m) One copy of well jurisdictional filing forms, interim collection notices and FERC final determinations.
- (n) Copy of gas purchase contract, if contracted.
- (o) Production reports upon request for the initial month of production. Monthly production reports thereafter.

Notices and reports shall be made to:

Jeff Hall
Exploration Manager

Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102

Office Telephone: (405) 552-4544
Home Telephone: (405) 348-4802

OR

Steve Blair
Manager of
Outside Operations

Office Telephone: (405) 552-4522
Home Telephone: (405) 771-7783

6.

For any wells drilled on the Farmout Area, you agree to abide by the terms and conditions in said Lease and be fully responsible for all damage claims or such awards, and shall restore the surface of the lands as near as practicable to its condition at the commencement of operation hereunder.

7.

If, after production has been established, any well on the Farmout Area capable of commercial production ceases commercial production, and you desire to plug and abandon such well, you will so notify Devon in writing, and Devon shall have an option for thirty (30) days from receipt of such notice to elect to take over the well and the spacing or proration unit for such well in its then condition by paying you the net salvageable value and upon such payment, you shall reassign the well, the said unit, and all materials and equipment used in connection therewith to Devon. In the event Devon elects to exercise any reassignment option reserved by it under any provision of this Agreement, any reassignment into Devon shall be free and clear of any liens, overriding royalty interests, production payments or similar encumbrances of whatsoever nature on said Lease or the said unit which may have been placed thereon, created or caused by any action of you or by any person, party or entity claiming by, through or under you. If Devon does not elect to take over such well, then you shall properly plug and abandon such well and restore the surface estate in accordance with Section 1.2 hereof.

8.

8.1 It is agreed that from and after the date of this Agreement Devon will pay, without liability, any delay rental which may become due on the Lease until such time as the assignment provided for in Section 2 has been executed or until this Agreement has been otherwise terminated and shall bill you for 100% of the delay rentals attributable to the Lease covered by Exhibit "A", which you agree to pay.

8.2 In the event that you receive delivery from Devon of the assignment described above in Section 2, then you shall make a bona fide effort to pay shut-in gas well royalty payments, if any, that thereafter shall become due and payable under the terms and provisions of the Lease, insofar as said shut-in gas well royalty payments shall be due and payable with respect to a shut-in gas well or wells otherwise capable of producing from or unitized with the lease acreage; and there shall be no obligation on the part of Devon to reimburse you for all or any portion of said shut-in gas well royalty payments so paid by you.

8.3 Devon shall incur no liability for any clerical error, oversight or inadvertent failure to make or in making such rental payments.

9.

It is understood and agreed that you, or in the event you do not operate, will insure that operator will make appropriate filings with applicable state regulatory bodies with regard to well classifications and price determination in compliance with FERC and IRS regulations. See Section 5.5(m) for copies of required filings to be furnished Devon.

10.

10.1 It is not the intention, nor purpose, of this Agreement to create, and nothing herein contained shall be construed as creating, a mining or other partnership or association for any purpose, or to render the parties hereto liable as partner; and no party hereto shall be liable or responsible for any act, either omission or commission, of any party hereto.

10.2 This Agreement shall extend to, and be binding upon, not only the parties hereto, but their respective successors and assigns.

10.3 Your rights hereunder are personal in nature to the parties and your rights hereunder shall not be assigned or transferred in whole or in part without the express written consent of Devon. It is further agreed and understood that any and all assignments made pertaining to all or a part of the interests covered by the Leases will specifically refer and be subject to this Agreement.

10.4 Prior to the commencement of any drilling operations on the Farmout Area, you shall furnish to Devon satisfactory evidence that you are bonded and satisfy the requirements to act as an operator under applicable federal, state, and local laws, rules, orders and regulations.

10.5 The only consequence of your failure to commence the actual drilling of the Test Well hereinabove provided for in Section 1 shall be the ipso facto cancellation of this Agreement in its entirety.

This letter is prepared in duplicate copies, each of which shall be treated as an original. If the terms and conditions hereinabove set forth are acceptable to you, please so indicate by executing and returning one copy to Devon within 20 days from the receipt hereof. Upon failure to receive an approved copy within the time stated, Devon will consider this Agreement to be null and void.

Sincerely,

ATTEST:

DEVON ENERGY CORPORATION (NEVADA)

By: Steve Cromwell
Steve Cromwell
Assistant Secretary

By: J.M. Lacey
J. M. Lacey
Vice President
RLG
PD
GDH

ACCEPTED AND AGREED TO THIS 2nd DAY OF June, 1997.

ATTEST:

MANZANO OIL CORPORATION

By: Allison Hernandez
Asst. Secretary

By: Kenneth Barbe, Jr.
Kenneth Barbe, Jr. V President

EXHIBIT "A"

Attached to and made a part of that certain Farmout Agreement dated February 4, 1997 by and between Manzano Oil Corporation and Devon Energy Corporation (Nevada).

State of New Mexico Oil and Gas Lease bearing Serial Number E-1582 dated November 10, 1947, by and between the State of New Mexico acting by and through its Commissioner of Public Lands, as Lessor, and Repollo Oil Company, as Lessee, insofar and only insofar as such Oil and Gas Lease covers the following lands in Lea County, New Mexico, limited in depth from the base of the Queen formation to 100' below the total depth drilled in the Test Well:

Township 18 South, Range 35 East, N.M.P.M.
Section 22: NW/4 and N/2 SW/4

SOUTH VACUUM-DEVONIAN POOL
Lea County, New Mexico

Order No. R-1382-C, Adopting Operating Rules for the South Vacuum-Devonian Pool, Lea County, New Mexico, October 1, 1960.

Application of the Pure Oil Company for the promulgation of special rules and regulations governing the South Vacuum-Devonian Pool, Lea County, New Mexico, including a provision for 80-Acre proration units.

CASE NO. 1634
Order No. R-1382-C

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 o'clock a.m. on August 17, 1960, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 16th day of September, 1960, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, The Pure Oil Company, seeks the promulgation of special rules and regulations for the South Vacuum-Devonian Pool, Lea County, New Mexico, to provide for 80-acre oil proration units.

(3) That the applicant has proved by a preponderance of the evidence that the South Vacuum-Devonian Pool can be efficiently and economically drained and developed on 80-acre proration units.

(4) That to require development of the South Vacuum-Devonian Pool on 40-acre proration units would probably cause the drilling of unnecessary wells.

(5) That all parties present waived objection to the continued assignment of a 40-acre allowable to any well presently producing from the South Vacuum-Devonian Pool to which cannot be dedicated an 80-acre tract which can reasonably be presumed to be productive of oil from said pool. Only two such wells exist, namely, The Pure Oil Company Reeves Well No. 2-26, SE/4 SW/4 of Section 26 and The Pure Oil Company Reeves Well No. 4-26, NE/4 SW/4 of said Section 26, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico.

IT IS THEREFORE ORDERED:

That special rules and regulations for the South Vacuum-Devonian Pool, Lea County, New Mexico, be and the same are hereby promulgated as follows, effective October 1, 1960; provided, however, that the increased allowable provisions contained herein shall not become effective until November 1, 1960.

SPECIAL RULES AND REGULATIONS FOR THE SOUTH VACUUM-DEVONIAN POOL

RULE 1. Each well completed or recompleted in the South

Vacuum-Devonian Pool or in the Devonian formation within one mile of the South Vacuum-Devonian Pool, and not nearer to nor within the limits of another designated Devonian pool, shall be spaced, drilled, operated, and prorated in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well completed or recompleted in the South Vacuum-Devonian Pool shall be located on a unit containing approximately 80 acres which consists of the N/2, S/2, E/2 or W/2 of a single governmental quarter section.

RULE 3. All wells projected to or completed in the South Vacuum-Devonian Pool shall be located within 150 feet of the center of either quarter-quarter section in the 80-acre unit; provided, however, that nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in the 80-acre unit.

RULE 4. For good cause shown, the Secretary-Director may grant an exception to Rule 2 without notice and hearing when the application is for a non-standard unit comprising a single quarter-quarter section or lot. All operators offsetting the proposed non-standard unit shall be notified of the application by registered mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application if, after a period of 30 days, no offset operator has entered an objection to the formation of such non-standard unit.

The allowable assigned to any such non-standard unit shall bear the same ratio to a standard allowable in the South Vacuum-Devonian Pool as the acreage in such non-standard unit bears to 80 acres.

RULE 5. An 80-acre proration unit (79 through 81 acres) in the South Vacuum-Devonian Pool shall be assigned an 80-acre proportional factor of 6.67 for allowable purposes, and in the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from said wells in any proportion.

IT IS FURTHER ORDERED: That operators who propose to dedicate 80-acres to a well in the South Vacuum-Devonian Pool must file an amended Commission Form C-128 with the Hobbs District Office of the Commission by October 15, 1960 in order that the well may be assigned an 80-acre allowable on the November proration schedule.

IT IS FURTHER ORDERED: That any well which was drilled to and producing from the South Vacuum-Devonian Pool prior to August 17, 1960, which presently has 40 acres dedicated to it, and to which cannot be dedicated an 80-acre unit which can reasonably be presumed to be productive of oil from the South Vacuum-Devonian Pool shall continue to be assigned an allowable equal to normal 40-acre unit allowable for Southeast New Mexico times the 40-acre proportional factor for said pool of 5.67. This exception shall apply only to the wells described in Finding No. 5.

IT IS FURTHER ORDERED: That jurisdiction of this cause is hereby retained by the Commission for such further order or orders as may be deemed necessary in the future.

DONE at Santa Fe, New Mexico, on the day and year herein above designated.

COUNTY Lea POOL South Vacuum-Devonian

TOWNSHIP 18-South RANGE 35-East NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Description ^{NE}/₄ Sec. 35 (R-1143, 3-25-58) - ^N/₂ Sec. 27;
^N/₂ Sec. 34; ^{NW}/₄ Sec. 35, (R-1238, 9-1-58) - ^{NE}/₄ Sec. 21; ^N/₂
 Sec. 22, (R-1248, 10-1-58) - ^{NE}/₄ Sec. 27; ^{SE}/₄ Sec. 35, (R-1312,
 1-1-59) - ^N/₂ Sec. 26; ^{SE}/₄ Sec. 27; (R-1424, 7-1-59) - ^{SE}/₄
 Sec. 22, (R-1633, 4-1-60).