

BEFORE EXAMINER CATANACH DAVID A. LYNCH
OIL CONSERVATION DIVISION OIL & GAS PROPERTIES

P. O. Box 1904
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EXHIBIT NO. 2

CASE NO. 11676

January 14, 1997

Manzano Oil Corporation
Attention: Mr. Kenneth V. Barbe
P. O. Box 2107
Roswell, NM 88202-2107

RE: Lea County, NM
T-16-S, R-36-E, N.M.P.M.
Sec. 11: SW/4
(160 acres, more or less)

Dear Mr. Barbe:

As you know, last week I had visited with Enick Diffie and made him aware of my purchase, or acquisition of leases covering, several unleased mineral interests in the captioned lands. At that time, I asked Enick to (1) make you aware of these activities and (2) let you know that I would be interested in working with you in regard to these interests.

This afternoon, Enick and I had another conversation in my office in which he told me that he had notified you of my efforts and that you had requested I relate to you my proposed terms. This letter is intended to satisfy your request and also to serve as written notice of my ongoing acquisition of the following interests under the said lands:

1. Mineral Deed covering the 11/336 mineral interest of Silvyn Butts Ponder;
2. Oil & Gas Lease covering the 1/1176 mineral interest of the heirs of Mr. & Mrs. Walter Shields (both of whom are deceased), carrying 1/8 royalty;
3. Mineral Deeds covering 1/3 of the 1/168 mineral interest owned of record by Alva Hagan (deceased), purchased from seven of her heirs;
4. Oil & Gas Leases covering 2/3 of the 1/168 mineral interest formerly owned by Alva Hagan from her remaining heirs, all of which leases provide for 1/8 royalty, as well.

To summarize, I have made trades covering 5/144 unleased mineral interest and leasehold over 17/3528 mineral interest.

As an owner of a smaller mineral interest which is presently under lease to you, I am, of course, aware of the recent forced-pooling proceedings involving my newly-acquired interests for the drilling of the "SV" Chipshot Well No. 1 on a 40-acre proration unit consisting of the NE/4 SW/4 of said section.

I am willing to commit my unleased mineral interest to said proration unit based on the terms of a no bonus lease providing for a 30% royalty. I will also commit my leasehold interest to said proration unit by delivering to you [or such assignee(s) as you may designate] an assignment reserving (as an override) the difference between existing lease burdens and 30%. These are the same terms I believe to have been accepted by Manzano from the Christmas family mineral owners in this same geographical area in the

recent past. The lease and assignment herein contemplated shall be effective with the first date of production from the said "SV" Chipshot Well No. 1.

As to the balance of my acreage outside the aforesaid proration unit, please consider this letter as written notice of my agreement and desire to participate in any future wells proposed on the captioned lands.

In the event the above-stated terms and conditions are acceptable, please notify me in writing (facsimile will be sufficient) so that the appropriate instruments may be prepared. **However, please respond with your answer prior to 5:00 p.m. M.S.T. on this Friday, the 17th day of January, 1997, at which time my proposal shall expire.**

In addition to your request for my proposal outlined hereinabove, Enick said you would like to have documentation of my new purchases. As to the interest of Silvyn Butts Ponder, I intend to pay the draft covering this interest tomorrow (Wednesday) and will place my deed of record tomorrow afternoon. All other trades are in various stages and it will be a matter of a few days before my vesting instruments are placed of record. I will be sending you copies of the recorded instruments as they are recorded.

Having seen a notice in the newspaper last week regarding additional forced-pooling proceedings initiated by you and covering your proposed "SV" Chipshot Well No. 2, I am aware of the scheduled hearing in this case for Thursday, January 23, 1997. Since I have not received actual notice of these proceedings, I am hereby requesting you furnish me with written notice to my letterhead address, pertaining to all four (4) interests outlined above, recognizing my ownership of these interests, disregarding the fact that I may not have record title to all of these interests at the time of the scheduled hearing. *Although I would dislike having to do so*, I believe I have the right to postpone the hearing date based upon not having received notice of the hearing within the required time frame. **Therefore, I request that you also send written notice by 5:00 p.m. M.S.T. on Friday, January 17, 1997, that you recognize my ownership of these interests (again, facsimile will be sufficient).** I believe my notice of the proceedings should also include an A.F.E. for the said Well No. 2, which, when received by me, will be executed and returned forthwith.

Thank you for your consideration of my proposal and for your cooperation in these matters.

Sincerely,



David A. Lynch

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