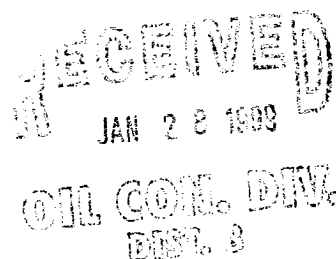




January 27, 1999

Mallon Oil Company
P. O. Box 2797
Durango, Colorado 81302
Attention: Christy Serrano



Administrative Order NSL-3995-B

Dear Ms. Serrano:

Reference is made to your application dated January 7, 1999 for an unorthodox gas well location in the San Jose formation for Mallon Oil Company's (Mallon) existing Jicarilla 464-29 Well No. 9 (API No. 30-039-25765) located 2430 feet from the North line and 2405 feet from the East line (Unit G) of Section 29, Township 30 North, Range 3 West, NMPM, Rio Arriba County, New Mexico.

By Division Administrative Order NSL-3995, dated April 9, 1998, Mallon received authorization to drill to and complete the Jicarilla 464-29 Well No. 9 in both the East Blanco-Pictured Cliffs Pool and Mancos formation within a standard 175.15-acre gas spacing and proration unit for both intervals comprising Lots 1 and 2 and the W/2 NE/4 (NE/4 equivalent) of Section 29 at the above-described unorthodox gas well location.

By Division Administrative Order NSL-3995-A, dated August 12, 1998, Mallon received authorization to recomplete this well into the Undesignated Cabresto Canyon-Ojo Alamo Pool at an unorthodox gas well location within the NE/4 equivalent of Section 29.

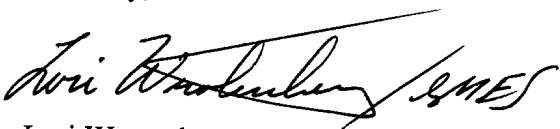
It is our understanding that Mallon drilled this well to a total depth of 6320 feet in February, 1998 and on April 10, 1998 completed it in the Undesignated Cabresto Canyon-Ojo Alamo Pool. It is our further understanding through conversations with the Division's Aztec District Office that Mallon has subsequently recompleated this well into the San Jose formation and is currently producing gas. Pursuant to Division General Rule 104.C(3)(a), this location is also unorthodox. Lots 1 and 2 and the W/2 NE/4 (NE/4 equivalent) of Section 29 is to be dedicated to the well in order to form a standard 175.15-acre gas spacing and proration unit for San Jose gas production.

The application has been duly filed under the provisions of Rule 104.F of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division").

By the authority granted me under the provisions of Division General Rule 104.F(2), the above-described unorthodox gas well location within the San Jose formation is hereby approved.

Further all provisions of Orders NSL-3995 and NSL-3995-A shall remain in full force and affect until further notice.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lori Wrotenbery", followed by the initials "MES" in a more stylized, blocky script.

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Aztec /
U. S. Bureau of Land Management - Albuquerque
File: NSL-3995
NSL-3995-A