

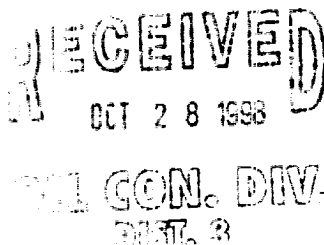


NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

October 22, 1998

Mallon Oil Company
P. O. Box 2797
Durango, Colorado 81302
Attention: Duane C. Winkler



Telefax No. (970) 382-7650

Administrative Order NSL-2831-A

Dear Mr. Winkler:

Reference is made to the following: (i) your application dated August 25, 1998; (ii) a telephone conversation between Mr. Michael E. Stogner, Engineer with the New Mexico Oil Conservation Division ("Division") in Santa Fe, and Ms. Christy Serrano in your Durango office on Thursday, October 22, 1998; and, (iii) the records of the Division in Santa Fe: all concerning Mallon Oil Company's ("Mallon") request for an unorthodox gas well location in the Undesignated Cabresto Canyon-Ojo Alamo Pool for the recently drilled Jicarilla 459-20 Well No. 8 (API No. 30-039-25787), located 2205 feet from the South line and 1530 feet from the West line (Unit K) of Section 20, Township 30 North, Range 3 West, NMPM, Rio Arriba County, New Mexico.

By Division Administrative Order NSL-2831, dated July 27, 1990, Robert L. Bayless ("Bayless") was authorized to drill its proposed Jicarilla "459" Well No. 6 at an unorthodox gas well location 2205 feet from the South line and 1530 feet from the West line (Unit K) of Section 20 in order to test the East Blanco-Pictured Cliffs Pool. A standard 160-acre gas spacing and proration unit comprising the SW/4 of Section 20 was to have been dedicated to the well.

Apparently Bayless never drilled its proposed Jicarilla "459" Well No. 6. On March 8, 1998 Mallon spudded the subject Jicarilla 459-20 Well No. 8 under the authority of Division Administrative Order NSL-2831 at the above-described unorthodox Pictured Cliffs gas well location. On March 16, 1998 the well was TD-ed at 4,090 feet and on March 20, 1998 Mallon completed this well in the Undesignated Cabresto Canyon-Ojo Alamo Pool with perforations from 3277 feet to 3326 feet.

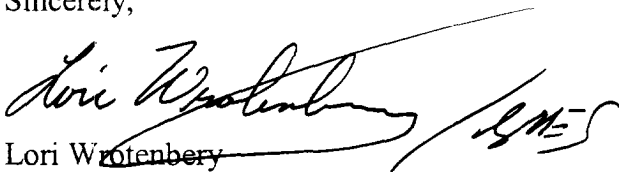
Further, gas production from this well attributed to the Undesignated Cabresto Canyon-Ojo Alamo Pool is to be dedicated to the SW/4 of Section 20 thereby forming a standard 160-acre gas spacing and proration unit.

This application has been duly filed under the provisions of Division General Rule 104. Fof 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 for the Jicarilla 459-20 Well No. 8 within the Undesignated Cabresto Canyon-Ojo Alamo Pool is hereby approved.

Further, all provisions of original Order NSL-2831 shall remain in full force and affect until further notice.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lori Wrotenbery", followed by a large, stylized flourish or mark that resembles "LWES".

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Aztec /
U. S. Bureau of Land Management - Albuquerque
Jim Bruce, Legal Counsel for Mallon Oil Company - Santa Fe
File: NSL-2831