

Certified Return-Receipt US Mail  
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October 18, 1999

COPY

Mr. Jack L. Waldrep, Jr.  
Land Manager  
Reliance Operating Company  
P.O. Box 10946  
Midland, TX 79702

RE: Federal "D" No.3  
E/2 Section 31, T9S, R36E  
Lea County, New Mexico

Dear Mr. Waldrep:

We are in receipt of your letter addressed to Mr. Armando Lopez dated October 13, 1999 and copied to Messrs. M. Stogner, P. Kautz, B. Rutter, Jr. and D. Cherry. After receiving this letter from you we feel compelled to point out certain inaccuracies and mis-statements made by you therein:

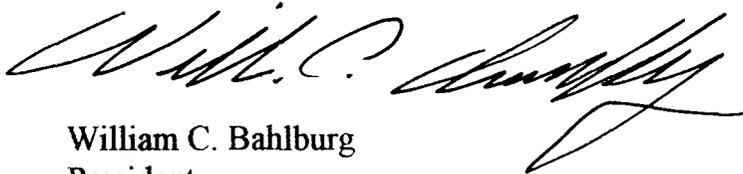
1. According to the information filed by Reliance Operating Company, the Federal D No.3 well does not produce oil from the current Atoka zone. Instead, the well produces gas and 60 to 61 deg. gravity condensate. The liquid condensate produced from this well exists, by definition, in a gaseous phase under temperature and pressure conditions within the Atoka reservoir. Therefore the current Atoka reservoir was classified as a gas reservoir by the NMOCD and spaced accordingly. In April of this year Reliance filed Form C-102 with the NMOCD dedicating the E/2 of Section 31 as the 320ac. proration unit for the Atoka production from this well. To suggest in your letter that either Mr. Cherry or myself have exerted undue influence in the classification of the Atoka production from this well is preposterous and an affront to all those involved in the regulatory process. The NMOCD classified the Atoka production in the Federal D No.3 well on the basis of the production information provided by your company and spaced the well using the E/2 of Section 31 at your written request. I refer you to the NMOCD records and files concerning this well for documentation of these facts.

2. We have requested payment from Reliance for our ORRI in the 320-acre E/2 unit established for the well. Reliance has received proceeds related to our ORRI since the date of first production, but we have not received payment despite executing a Division Order prepared by your office for our interest. Contrary to your statement on the last page of your letter neither Bahlburg Exploration, Inc. or myself have made any threat of litigation to you or anyone else at Reliance concerning this matter. Instead we have diligently worked to cure any minor defects in the title to the oil and gas leases in both the SE/4 and NE/4 of Section 31 pursuant to your request.

Your claim of tortious interference is both absurd and defamatory. We stand ready to accept the final determinations and rulings of the NMOCD and BLM regarding the issues surrounding the Atoka Production from the Federal D No.3 well, but be advised we intend to participate in that process to protect our interests when allowed and deemed appropriate by those regulatory agencies.

Sincerely,

BAHLBURG EXPLORATION, INC.



William C. Bahlburg  
President

cc: Mr. Armando Lopez  
✓ Mr. Mike Stogner  
Mr. Paul Kautz  
Mr. Bill Rutter, Jr.  
Mr. David L. Cherry