

MESA GRANDE RESOURCES, INC.

**1200 PHILTOWER BUILDING
TULSA, OKLAHOMA 74103
(918) 587-8494**

October 30, 1985

Mallon Oil Company
2850 Security Life Building
Denver, Colorado 80202

Attention: Karen E. McClintock

Re: 10/24/85 Farmout Request
E/2 NW/4, Section 12-25N-2W
Rio Arriba County, New Mexico

Gentlemen:

Per recent conversations between our two parties, this letter will act as written notice of Mesa Grande's intention and desire to participate in Mallon's #12-5 Johnson Federal Well. In accordance, we are not interested in granting a Farmout to Mallon Oil Company of our interest in the subject tract.

Please submit to my attention an AFE, an approved Drilling Permit including the C-102 (Acreage Dedication Plat), a Communitization Agreement and an Operating Agreement covering the subject well. When the aforementioned documents have been executed and returned to Mallon Oil Company by Mesa Grande Resources, Inc., we will expect all pertinent information and data relating to the drilling, testing and completion of the #12-5 Johnson Federal Well.

In response to your indication that you will seek a 240 acre non-standard proration unit if we do not farmout, I suggest that you review the pool rules which relate to the Gavilan Mancos Pool. Afterwards, a review of the NMOCD case No. 8713, which Mallon has gone on record as supporting, may be helpful. The information gained from this review will assist Mallon Oil Company with future operations when and where these operations interrelate with other area operators.

I look forward to a timely response to our requests stated herein.

Sincerely,

MESA GRANDE RESOURCES, INC.

Gregory R. Phillips
Vice President

GRP:dww

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico	
Case No. <u>8900</u>	Exhibit No. <u>3</u>
Submitted by <u>Mesa Grande</u>	
Date <u>5/20/86</u>	