

# MALLON OIL COMPANY

2850 Security Life Building, Denver, Colorado 80202  
(303) 572-1511

November 8, 1985

Mesa Grande Resources, Inc.  
1200 Philtower Building  
Tulsa, Oklahoma 74103

Attn: Mr. Gregory R. Phillips

RE: Gavilan Prospect  
Mallon #12-5 Johnson Federal  
Rio Arriba County, New Mexico

Dear Greg:

Per our phone conversation, enclosed please find the Operating Agreement and AFE for the above captioned well. The costs associated with the drilling of the Johnson well have not all been accounted for, but we anticipate costs at or below AFE.

As discussed, Mallon feels that due to the fact that the drilling of the Johnson well was virtually trouble-free and that the potential problems that are common in this area when drilling Gallup/Dakota wells did not impair the drilling of the Johnson well, we feel that a risk factor of 50% is equitable. The enclosed AFE reflects the 50% risk factor to be paid by Mesa Grande.

Please review the Operating Agreement and AFE at your earliest convenience. Please respond within ten (10) days from the receipt of this letter as to your decision.

If you have any questions, please do not hesitate to call myself or Mr. Kevin Fitzgerald, our Engineer and Manager of Operations.

Sincerely,

MALLON OIL COMPANY



Karen E. McClintock  
Landman

BEFORE THE OIL CONSERVATION COMMISSION Santa Fe, New Mexico	
Case No. <u>8900</u>	Exhibit No. <u>C</u>
Submitted by <u>MESA GRANDE</u>	
Hearing Date <u>5/20/86</u>	

/encl.