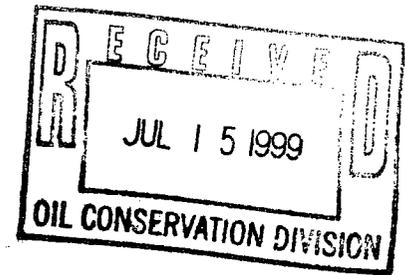


Mallon Oil Company

Denver/Colorado ♦ Durango/Colorado ♦ Carlsbad/New Mexico

a Mallon Resources Subsidiary



July 12, 1999

Mr. Mike Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

I have enclosed an a copy of a memo sent to me by Mallon Oil Company's Geology Department. The memo describes one of the reasons geology is considered during well bore placement. I have also enclosed a copy of the IMDA Agreement #701-90-0002 that you requested.

Please attach the documents to the complete NSL Proposal I have previously submitted.

Please contact me at (970) 382-9100, if any additional information is needed.

Sincerely

A handwritten signature in cursive script that reads "Christy Serrano".

Christy Serrano
Production Clerk

Mallon Oil Company

MEMORANDUM

DATE: June 25, 1999
TO: Christy Serano
FROM: George Coryell
RE: East Blanco - La Jara Canyon NSL blanket proposal
CC: Wendell Bond

Recent experience in East Blanco Field suggests that natural fracturing may be important to enabling otherwise tight reservoirs to produce gas, as well as being the reason for typical reservoirs to produce at higher than expected rates than may be calculated from measured rock permeabilities. This is thought to be the case for, at least, the Pictured Cliffs and Ojo Alamo sandstones. It is also believed that tectonic fracturing may be responsible for Ojo Alamo wells which produce without the need for a frac job.

An effort is being made to locate wells on suspected fault or fracture lines whenever these features are indicated in conjunction with other mapped primary reservoir parameters. Given the relatively shallow depth of the Tertiary age units and the lack of major unconformities above the Cretaceous boundary, it is believed that structure in the Ojo Alamo and overlying rocks is often reflected in the surface geology. Air-photo geology has been utilized to aid in mapping of subsurface structure. Air-photo geology and geomorphic analysis of topography show correlations between wells located on or near surface lineations and enhanced production from either the Pictured Cliffs or Ojo Alamo reservoirs. If an obvious fault, lineation, or an intersection of these features occur within a prospective 160 acre location, an attempt will be made to place the well as close as possible to the surface feature in order to optimize potential well performance. This positioning may result in a non-standard location.

**RELEASE FROM CONTRACT AREA
JICARILLA APACHE MINERALS DEVELOPMENT AGREEMENT
NO. 701-90-0002**

THIS RELEASE, executed on the date indicated below, is made by Robert L. Bayless, Inc., a New Mexico corporation, (hereafter referred to as "BAYLESS") and is accepted by the Jicarilla Apache Tribe acting through its Tribal Council (hereafter referred to as the "TRIBE").

W I T N E S S E T H

WHEREAS, BAYLESS and the TRIBE entered into a Minerals Development Agreement dated August 6, 1990, approved by the Secretary of the Interior on September 21, 1990, and identified as Minerals Development Agreement No. 701-90-0002 (hereafter referred to as the "Development Agreement"); and

WHEREAS, the lands encumbered by the Development Agreement consisted of Section 1 through 36 in Township 31 North, Range 3 West, and Sections 27, 28, 33 and 34 in Township 30 North, Range 3 West, N.M.P.M, Rio Arriba County, New Mexico, consisting of 25,600 acres, more or less; and

WHEREAS, BAYLESS has drilled and completed the following wells capable of producing hydrocarbons in paying quantities pursuant to §§ 4.2.2 and 4.2.3 of the Development Agreement:

Jicarilla 30-3-28-1 in W/2 Sec. 28, T. 30 N., R. 3 W.
Jicarilla 31-3-06-2 in S/2 Sec. 6, T. 31 N., R. 3 W.
Jicarilla 31-3-32-1 in S/2 Sec. 32, T. 31 N., R. 3 W.; and

WHEREAS, the parties agree that the time allowed for BAYLESS to initiate and complete the work required by § 4.8.1 of the Development Agreement concerning the well previously drilled by Amoco Production Company known as Amoco Production Company-Jicarilla 531-1 Well, located in Section 5, Township 31 North, Range 3 West, N.M.P.M. has not yet expired; and

WHEREAS, BAYLESS has terminated the continuous development program described in § 4.2.2 of the Development Agreement.

NOW THEREFORE, in compliance with the provisions of § 4.2.3 of the Development Agreement BAYLESS and the TRIBE agree as follows:

**ROBERT L. BAYLESS, INC./JICARILLA APACHE TRIBE
RELEASE FROM CONTRACT AREA—JMDA # 701-90-0002**

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**ARTICLE I
EARNED AREAS**

The following areas and formations have been earned by BAYLESS and shall continue to be subject to all terms of the Development Agreement:

T. 30 N., R. 3 W.: W/2 Section 28,
T. 31 N., R. 3 W.: S/2 Section 6 and S/2 Section 32,

only from the surface to the base of the Pictured Cliffs formation.

**ARTICLE II
AMOCO-JICARILLA 531-1 WELL**

On or before June 30, 1994 BAYLESS shall construct a gas pipeline to the Amoco-Jicarilla 531-1 Well (if the Tribe shall grant the necessary right of way for such pipeline) and shall restore production from that well. If BAYLESS fails to complete these activities by June 30, 1994, BAYLESS shall be deemed to automatically relinquish all rights under the Minerals Agreement to the Amoco-Jicarilla 531-1 Well and all lands associated with that well. If BAYLESS timely commences these activities, the provisions of ¶ 4.8 shall apply to determine whether the Amoco-Jicarilla 531-1 Well becomes an Earning Well under the Minerals Agreement. If the Amoco-Jicarilla 531-1 Well becomes an Earning Well, BAYLESS shall earn the right to explore for, develop, produce and sell hydrocarbons from any geologic formation from the surface down to the bottom of the Dakota formation within the West Half of Section 5, T. 31 N., R. 3 W., N.M.P.M.

**ARTICLE III
RELEASED AREAS**

All areas and formations located within Section 1 through 36 in Township 31 North, Range 3 West, and Sections 27, 28, 33 and 34 in Township 30 North, Range 3 West, N.M.P.M, Rio Arriba County, New Mexico, excluding the lands identified in Article I and Article II of this Release, are hereby permanently removed from the Contract Area as defined by § 1.1 of the Development Agreement. BAYLESS hereby releases, abandons and disclaims any and all interests arising from the Development Agreement in the lands removed from the Contract Area by this Release. Removal of these lands from the Contract Area for purposes of the Development Agreement does not release BAYLESS from any liability for damage to or contamination of the removed lands which may have been caused by or attributed to BAYLESS based on its activities on the removed lands prior to the effective date of this Release.

**ROBERT L. BAYLESS, INC./JICARILLA APACHE TRIBE
RELEASE FROM CONTRACT AREA-JMDA # 701-90-0002**

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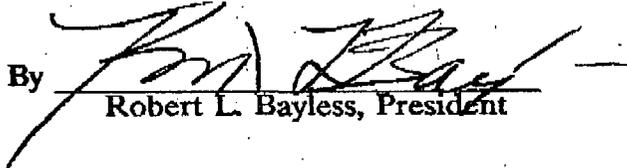
**ARTICLE IV
EFFECTIVE DATE**

The release and abandonment of interests by BAYLESS provided for in this Release shall be effective on the date this Release is approved by the Secretary of the Interior or his lawful delegate.

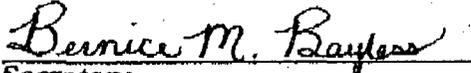
IN WITNESS WHEREOF, this Release was executed and accepted on the dates stated below.

ROBERT L. BAYLESS, INC.

By


Robert L. Bayless, President

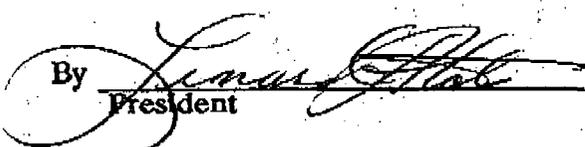
Attest:


Secretary

RELEASE ACCEPTED BY:

JICARILLA APACHE TRIBE

By


President

Attest:


Secretary

**ROBERT L. BAYLESS, INC./JICARILLA APACHE TRIBE
RELEASE FROM CONTRACT AREA-JMDA # 701-90-0002**

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ACKNOWLEDGEMENTS

STATE OF NEW MEXICO)
COUNTY OF San Juan) :ss

The foregoing instrument was acknowledged before me this 29 day of September, 1993 by Robert L. Bayless, who is the President of Robert L. Bayless, Inc., a New Mexico corporation.

Edison Morris
Notary Public

My Commission Expires:
9-20-96

STATE OF NEW MEXICO)
COUNTY OF San Juan) :ss

The foregoing instrument was acknowledged before me this 8th day of October, 1993 by Leonard Atole who is the President of the Jicarilla Apache Tribe on behalf of and for the benefit of the Jicarilla Apache Tribe.

Barbara J. Jorgensen
Notary Public

My Commission Expires:
1-26-95

RELEASE APPROVED BY THE SECRETARY OF THE INTERIOR:

By [Signature]
Area Director
Date Approved:

11-26-93

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**RIGHT OF WAY AGREEMENT
GAS PIPELINE
(T. 31 N., R. 3 W. and T. 30 N., R. 3 W., NMPM)**

This Agreement is made this _____ day of _____, 1993 between Robert L. Bayless (Bayless), whose address is P.O. Box 168, Farmington, New Mexico 87499 and the Jicarilla Apache Tribe (Tribe) whose address is P.O. Box 507, Dulce, New Mexico 87528.

WHEREAS, the parties have agreed to permit Bayless to construct a gas pipeline between the Bayless Jicarilla 31-3-32-1 well located in Section 32, T. 31 N., R. 3 W., NMPM and the existing Bayless gas pipeline system located at the Bayless Jicarilla 458 # 3 well in Section 7, T. 30 N., R. 3 W., NMPM, upon the conditions stated in this Agreement,

NOW THEREFORE IT IS AGREED by the parties as follows:

1. Consent to Pipeline Right of Way. The Tribe hereby consents to the grant of a right of way by the Secretary of the Interior to Bayless for the construction of a gas pipeline within Sections 32 and 31 in T. 31 N., R. 3 W., NMPM, and in Sections 6 and 7 in T. 30 N., R. 3 W., NMPM, at the surveyed location identified on the attached maps, subject to approval of the pipeline route by the Bureau of Indian Affairs and all Tribal departments participating in the on-site inspection.
2. Term. The initial term of the right of way shall be twenty (20) years from the date of grant by the Secretary of the Interior, subject to extension as provided in applicable departmental regulations if the Tribe shall consent to such extension.
3. Width. The right of way shall be forty-five (45) feet in width.
4. Damages. Bayless shall pay the Tribe for damages incident to survey and construction of the right of way and related facilities, as provided in 25 CFR § 169.13, in the amount of Twelve Dollars (\$12.00) per rod for the full length of the right of way grant, both within and outside areas earned by Robert L. Bayless, Inc. pursuant to Jicarilla Apache Minerals Development Agreement No. 701-90-0002, approved by the Secretary of the Interior on September 21, 1990, or earned by Bayless pursuant to any existing oil and gas lease.
5. Consideration. As consideration for the grant of the portion of the right of way located outside areas earned by Robert L. Bayless, Inc. pursuant to Jicarilla Apache Minerals Development Agreement No. 701-90-0002, approved by the Secretary of the Interior on September 21, 1990, or earned by Bayless pursuant to any existing oil and gas lease, Bayless shall pay the Tribe the amount of Ten Dollars (\$ 10.00) per rod for the portion outside of the areas earned under that agreement or lease.

6. Access to Pipeline. Bayless agrees to transport all gas owned by the Tribe which is delivered to the pipeline, and Bayless agrees that any and all transportation or other charges imposed for transporting the Tribe's gas shall not exceed the lowest rate then being charged to any other person, including Bayless, for transporting gas through the line.

7. Right of Entry. Bayless shall have the right, privilege and easement solely to enter into the lands described in the right of way instrument to be issued by the Jicarilla Agency, Bureau of Indian Affairs, Department of the Interior, to construct, maintain, repair, rebuild, and operate the pipeline to be constructed within the right of way authorized by this Agreement. After construction, Bayless shall restrict access to the surface of the right of way by any other party and shall permit only its employees and contractors to have access to the right of way for purposes related to operation and maintenance of the right of way and pipeline.

8. Compliance with Tribal Ordinances. Bayless agrees to comply with all applicable ordinances of the Tribe governing activity on the Tribe's Reservation, including but not limited to ordinances governing preference in employment and contracting.

9. Federal Provisions. The right of way authorized by this Agreement shall be terminable in whole or part by the Secretary of the Interior or his authorized delegate for any of the following causes, upon compliance with any procedures established under applicable statutes and regulations:

a. Failure to comply with any term or condition of this Agreement, the right of way grant or the applicable regulations.

b. Non-use of the right of way for a consecutive two-year period for the purposes for which it was granted.

c. Abandonment of the right of way.

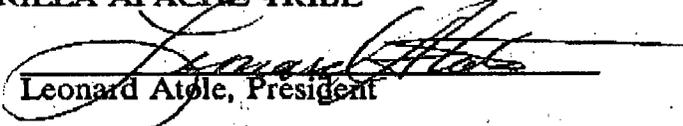
d. Failure to comply with any stipulations in the Tribal Council resolution approving this Agreement.

10. Successors. This Agreement shall be binding on and shall inure to the benefit of the heirs, successors and assigns of the parties.

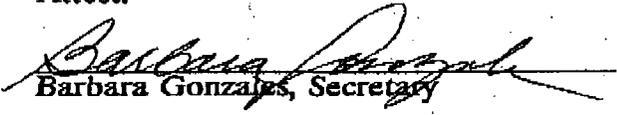
11. Assignability. Any assignment of an interest in the right of way authorized by this Agreement must be approved by the Tribe in accordance with applicable ordinances of the Tribal Council.

JICARILLA APACHE TRIBE

By:

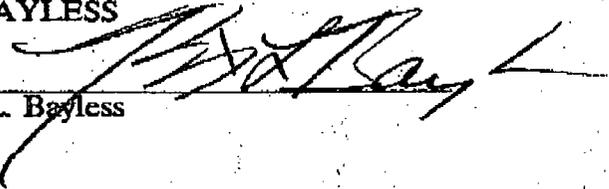

Leonard Atole, President

Attest:


Barbara Gonzales, Secretary

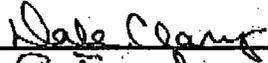
ROBERT L. BAYLESS

By:


Robert L. Bayless

APPROVED BY THE SECRETARY OF THE INTERIOR

By:


Title: Acting Superintendent

Date: 10/15/93

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