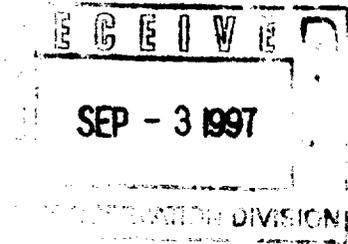


JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)



August 30, 1997

David Catanach
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Mallon Oil Company for approval of a salt water disposal well, Eddy County, New Mexico (Pennzoil 10 Fed. Well No. 2, §10-24S-26E)

Dear Mr. Catanach:

Enclosed, regarding the above application, is an affidavit of publication from the Carlsbad Current-Argus.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in dark ink and is positioned above the typed name.

James Bruce

Attorney for Mallon
Oil Company

Affidavit of Publication

No 18718

State of New Mexico,
County of Eddy, ss.

August 23, 1997

Amy McKay

being first duly sworn, on oath says:

That she is Business Manager
of the Carlsbad Current-Argus, a newspaper published daily at the City of Carlsbad, in said county of Eddy, state of New Mexico and of general paid circulation in said county; that the same is a duly qualified newspaper under the laws of the state wherein legal notices and advertisements may be published; that the printed notice attached hereto was published in the regular and entire edition of said newspaper and not in supplement thereof on the date as follows, to wit:

Mallon Oil Company has applied to the New Mexico Oil Conservation Division to convert the Pennzoid 10 Federal Well No. 2 to a salt water disposal well. Water will be disposed of into the Bone Spring formation at depths of 6090-6126 feet and 7644-7660 feet subsurface. The well is located 1980 feet from the South line and 660 feet from the West line of Section 10, Township 24 South, Range 26 East, NMPM, Eddy County, New Mexico. The maximum injection rate is 3000 barrels of water per day, with an estimated maximum surface injection pressure of 1250 psi. Interested parties must file an objection or request for hearing with the Oil Conservation Division, 2040 South Pacheco Street, Santa Fe, New Mexico 87505, within 15 days of the date this notice is published. If you have any questions about this application, please contact Ray Jones, Mallon Oil Company, Suite 1700, 999 18th Street, Denver, Colorado 80202. (303) 293-2333, ext. 1450.

August 23, 19 97
_____, 19 ____
_____, 19 ____
_____, 19 ____
_____, 19 ____
_____, 19 ____

That the cost of publication is \$ 21.03,
and that payment thereof has been made and will
be assessed as court costs.

Amy McKay

Subscribed and sworn to before me this

26th day of August, 19 97

Donna Crump

My commission expires 8/1/98
Notary Public

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

AUG 28

August 26, 1997

David Catanach
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

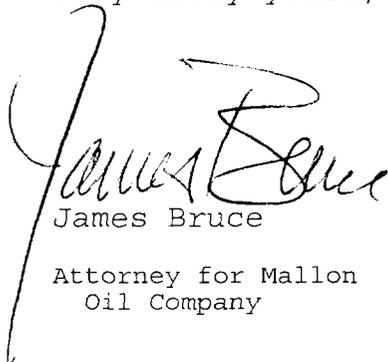
Re: Administrative application of Mallon Oil Company for approval of a salt water disposal well, Eddy County, New Mexico (Pennzoil 10 Fed. Well No. 2, §10-24S-26E)

Dear Mr. Catanach:

The above application was filed August 19th. Enclosed is a notice letter to the only surface owner, Eugene Hood, in which he waives objection to the application.

I will shortly provide a proof of publication to you.

Very truly yours,



James Bruce
Attorney for Mallon
Oil Company

Mallon Oil Company

Denver/Colorado ♦ Carlsbad/New Mexico

a Mallon Resources subsidiary

August 14, 1997

Eugene Hood
1142 Black River
VLG Road
Carlsbad, NM 88220

Re: Salt Water Disposal Well
Carlsbad, South
Sec. 10-T24S-R26E
Eddy County, NM

Dear Mr. Hood:

Mallon Oil Company is making application to the New Mexico Oil Conservation Division for authority to re-enter and complete for salt water disposal in the Pennzoil 10 Federal No. 2 well for water produced in the Carlsbad, South field. You are the surface owner within one-half mile of the proposed injector, located 1980' FSL & 660' FWL, NMPM, Eddy County, New Mexico.

If you object to this application, or feel that a public hearing is necessary, please contact the Oil Conservation Division, P.O. Box 2088, Santa Fe, NM 87504-2088. You may also contact Mallon Resources Corporation, 999 - 18th Street, Suite 1700, Denver, CO 80202, (303) 293-2333.

Please return a signed copy of this letter to the undersigned if you have no objections to the above mentioned application.

Sincerely,

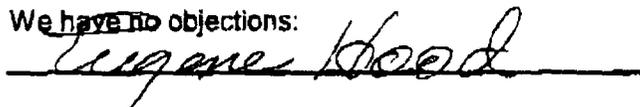


Don M. Erickson
Vice President - Operations

REJ/liw

Enclosure

We have no objections:



JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

673

August 20, 1997

25

David Catanach
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Administrative application of Mallon Oil Company for approval of a salt water disposal well, Eddy County, New Mexico (Pennzoil 10 Fed. Well No. 2, §10-24S-26E)

Dear Mr. Catanach:

The above application was filed August 19th. Enclosed is a notice letter to the only offset operator, Wadi Petroleum, Inc., in which it waives objection to the application.

Very truly yours,



James Bruce
Attorney for Mallon
Oil Company

Mallon Oil Company

Denver/Colorado • Carlsbad/New Mexico

a Mallon Resources subsidiary

August 7, 1997

Wadi Petroleum, Inc.
14405 Walters Road, Suite 400
Houston, TX 77014

Re: Salt Water Disposal Well
Carlsbad, South or White City Field
Sec. 10-T24S-R26E
Eddy County, NM

Dear Sirs:

Mallon Oil Company is making application to the New Mexico Oil Conservation Division for authority to re-enter and complete for salt water disposal in the Pennzoll 10 Federal No. 2 well for water produced in the Carlsbad, South field. You are the operator of an oil or gas well within one-half mile of the proposed injector, located 1980' FSL & 860' FWL, NMPM, Eddy County, New Mexico.

If you object to this application, or feel that a public hearing is necessary, please contact the Oil Conservation Division, P.O. Box 2088, Santa Fe, NM 87504-2088. You may also contact Mallon Resources Corporation, 999 - 18th Street, Suite 1700, Denver, CO 80202, (303) 293-2333.

Please return a signed copy of this letter to the undersigned if you have no objections to the above mentioned application.

Sincerely,

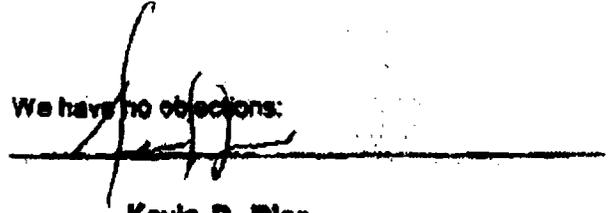


Don M. Erickson
Vice President - Operations

REJ/dms

Enclosure

We have no objections:



Kevin B. Dice
Vice President

WADI PETROLEUM, INC.
14405 Walters Road, Suite 400
Houston, TX 77014
281-583-2888
281-583-0504 (FAX)

C O V E R

S H E E T

FAX

TO: DAVID CATANACH

FAX: 505-827-8177

FROM: NORMAN BELL - WADI PETROLEUM

DATE: 10-13-97

RE: _____

PAGES: 3 including cover

NOTES:



WADI PETROLEUM INC.

14405 Walters Road, Suite 400
Houston, Texas 77014
281-583-2888 Fax 281-583-0504

October 13, 1997

New Mexico Oil Conservation Division
Mr. David Catanach
2040 S. Pacheco
Santa Fe, New Mexico 87505

Re: Mallon Salt Water Disposal Well
Section 10, T24S, R26E
Eddy County, New Mexico

SENT VIA FAX

Dear Mr. Catanach:

Attached is a survey plat Wadi received from Mallon Oil Company showing the Wadi Pennzoil Federal 9 No. 1 well to be 2660 feet from the Pennzoil 10 Federal No. 2 well (proposed salt water disposal well). We hope this information can be used in your decision to grant the Wadi well an exception from the cement squeeze requirement.

We await your decision.

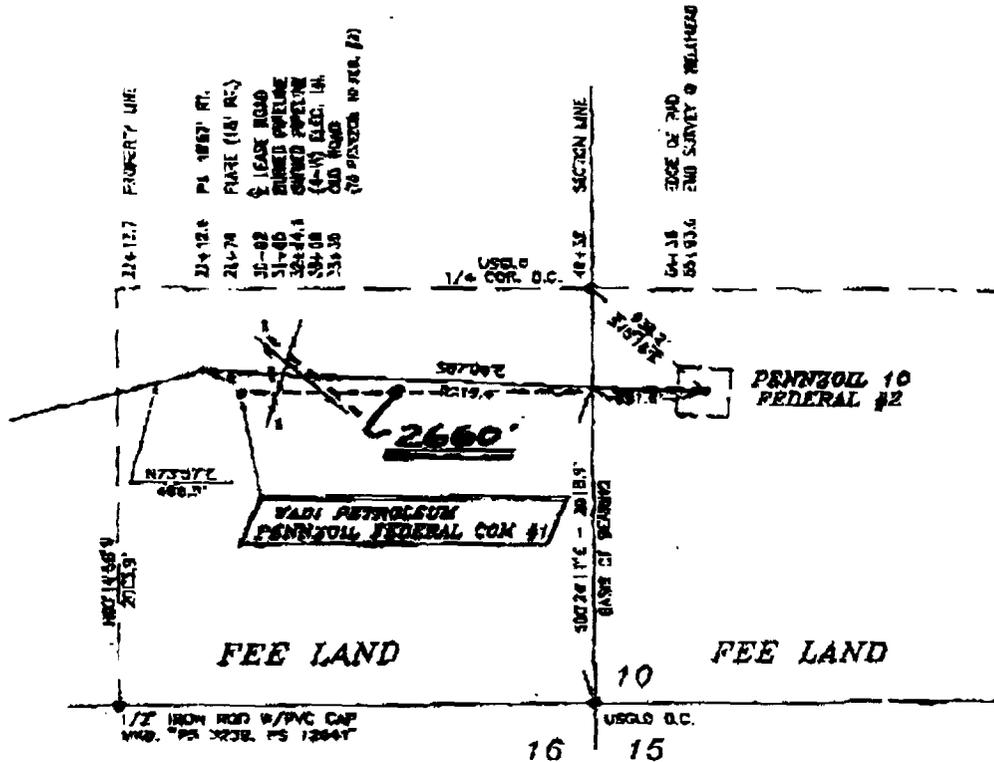
Sincerely,

Norman G. Bell
Director of Operations

NGB/lc

Don Erickson - Mallon
Tom Riddle - Mueller Engineering

SECTIONS 9 & 10 TOWNSHIP 24 SOUTH, RANGE 26 EAST, N.M.P.M., EDDY COUNTY NEW MEXICO



LEGAL DESCRIPTION

A PIPELINE CROSSING FEE LAND IN SECTIONS 9 AND 10, TOWNSHIP 24 SOUTH, RANGE 26 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO, AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE WEST LINE OF THE SW/4 OF SAID SECTION 9 WHICH LIES N07°14'58"W - 2003.9 FEET FROM A 1/2" IRON ROD W/PVC CAP MK'D "PS 3238, PS 12641" FOUND AT THE SOUTH QUARTER CORNER OF SAID SECTION 9; THENCE N73°57'E - 408.9 FEET; THENCE S87°08'E - 2681.8 FEET TO A POINT IN THE NW/4 SW/4 OF SAID SECTION 10 WHICH LIES S45°16'E - 838.2 FEET FROM A USGLD BRASS CAP FOUND AT THE WEST QUARTER CORNER OF SAID SECTION 10.

SAID PIPELINE BEING 3378.9 FEET OR 704.84 RODS IN LENGTH
SECTION 9 - 2718.2 FEET OR 184.71 RODS IN LENGTH
SECTION 10 - 661.8 FEET OR 40.10 RODS IN LENGTH



I HEREBY CERTIFY THAT I CONDUCTED AND AM RESPONSIBLE FOR THIS SURVEY, THAT THIS SURVEY IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF, AND THAT THIS SURVEY AND PLAT MEET THE MINIMUM STANDARDS FOR SURVEYING IN NEW MEXICO.

Ronald J. Edson 9-12-97
RONALD J. EDSON, N.M. R.P.S. No. 3238
GRAY G. EDSON, N.M. R.P.S. No. 12841

MALLON OIL COMPANY

SURVEY OF A SWD PIPELINE CROSSING FEE LAND IN SECTIONS 9 & 10 TOWNSHIP 24 SOUTH, RANGE 26 EAST, N.M.P.M., EDDY COUNTY, NEW MEXICO

Survey Date: AUG. 7, 1997	Sheet 1 of 1 Sheets
W.O. Number: 97-11-1342	Drawn By: CDG
Date: 8-8-97	MALLON-1
MAL1342	Scale: 1" = 1000'

JOHN W. WEST ENGINEERING COMPANY
CONSULTING ENGINEERS & SURVEYORS - HOBBS, NEW MEXICO



WADI PETROLEUM INC.

14405 Walters Road, Suite 400
Houston, Texas 77014
281-583-2888 Fax 281-583-0504

October 6, 1997

New Mexico Oil Conservation Division
Mr. David Catanach
2040 S. Pacheco
Santa Fe, New Mexico 87505

RE: Mallon Oil Company
Salt Water Disposal Proposal
White City Field
Sec. 10 – T24S – R26E
Eddy County, New Mexico

Dear Mr. Catanach:

As per our conversation last week, Wadi requests that an exception be granted to the requirement that a cement squeeze be performed on the Pennzoil Federal 9 No. 1 well located in Section 9, T24S-R26E. We request this exception for the following reasons:

- 1) The Pennzoil Federal 9 #1 well is located approximately 2653' from the proposed Mallon disposal well per survey done this date. Apparently the Commission has set a ½ mile radius (2640') from a saltwater disposal well (with proposed injections at this depth) as a reasonable boundary with which to be concerned. The 9 #1 well appears to be just outside the ½ mile radius marker. As soon as the survey is received we will furnish you a copy.
- 2) After reviewing the Pennzoil Federal 9 #1 well log (copy attached), we estimate porosity at the Mallon proposed injection interval to be between 5-8% and feel that with this level, at a ½ mile distance between the wells, the likelihood of water infiltrating and associated problems is minimized.
- 3) The Pennzoil Fed 9 #1 well has tubing which has been in the well for nine years. The initial string lasted eleven years. Therefore, it is expected that if the tubing were to be pulled for the cement squeeze job, it would require replacement thereby changing the costs from a simple, inexpensive job to one of risky and expensive proportions.
- 4) Negotiations with Mallon to cover the cost of the cement squeeze would certainly be worthwhile, but we anticipate that the cost of a new production string would be charged primarily to the current owners of the well. Based on the current elevated cost of pipe, rig services, etc., Wadi believes that this is not the proper timing for such expenditure.

October 6, 1997
Mr. David Catanach
Page Two

5) Wadi has researched our records and have verified most of the data submitted by Mallon on the Pennzoil Federal 9 #1 well as correct. However, our records show the 8 5/8" string was cemented with 2500 sx cement with 150sx reversed out. In addition, the well has a 2 7/8" production string which, as mentioned above, was replaced in February 1988 with new tubing. Wadi believes that the cement from 5467' to the surface should protect any fresh water zones from the possible migration of Bone Spring water uphole, and the 1120 sx of cement used in the bottom of the hole on the 5 1/2" long string will protect the current producing zones from water in zones above.

Based on the above facts, Wadi requests that it be granted an exception to performing the cement squeeze. Please let us know your thoughts at your earliest convenience. Thank-you in advance for your consideration of our request for exception.

Sincerely,



Norman G. Bell
Director of Operations

NGB:llc



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

October 17, 1997

Wadi Petroleum Inc.
14405 Walters Road
Suite 400
Houston, Texas 77014
Attention: Mr. Norman G. Bell

Mallon Oil Company
999 18th Street
Suite 1700
Denver, Colorado 80202
Attention: Mr. Don Erickson

Re: Division Administrative Order No. SWD-673
Pennzoil "10" Federal Well No. 2
1980' FSL & 660' FWL Section 10, T-24S, R-26E,
Eddy County, New Mexico

Dear Messrs. Bell & Erickson:

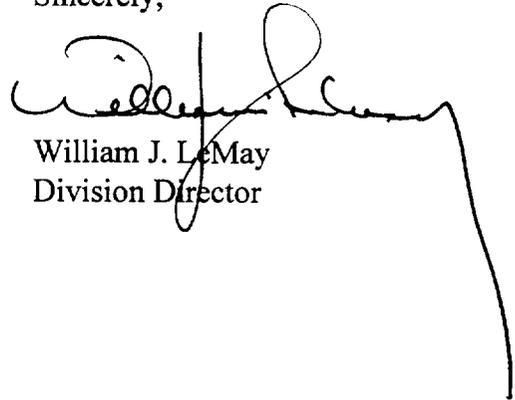
My staff has reviewed your recent request for an exception to the requirements set forth in Division Order No. SWD-673 whereby Mallon Oil Company was required to perform a remedial cement squeeze operation on the Wadi Petroleum Inc. Pennzoil Federal "9" Well No. 1, located in Unit J of Section 9, Township 24 South, Range 26 East, prior to utilizing its Pennzoil "10" Federal Well No. 2 for injection.

It is my understanding that the exception is requested based upon the fact that the Pennzoil Federal "9" Well No. 1 is located just outside the "area of review" of the Pennzoil "10" Federal Well No. 2, and that due to geologic considerations, it is believed that water injected into the subject injection well will have no adverse impact on the Pennzoil Federal "9" Well No. 1.

For the reasons cited above, the requirement contained within Division Order No. SWD-673 for Mallon Oil Company to perform a remedial cement squeeze operation on the Wadi Petroleum Inc. Pennzoil Federal "9" Well No. 1 is hereby deleted.

All other provisions contained within Division Order No. SWD-673 shall remain in full force and effect.

Sincerely,

A handwritten signature in black ink, appearing to read 'William J. LeMay'. The signature is written in a cursive style with a large initial 'W' and a long, sweeping tail that extends downwards and to the right.

William J. LeMay
Division Director

xc: OCD-Artesia
 File-SWD-673