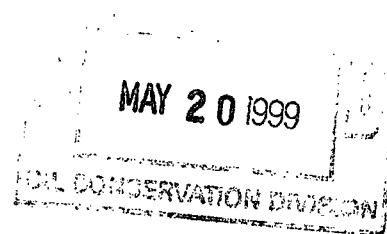


MALLON OIL COMPANY



NON-STANDARD LOCATION BLANKET PROPOSAL

May 14, 1999

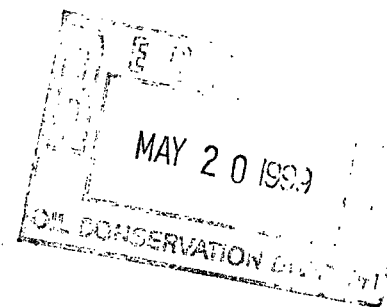
MALLON OIL COMPANY

Non-Standard Location Blanket Proposal

May 20, 1999
McFaul
MS. Grano

Mallon Oil Company requests a Non Standard Location blanket for the following:

1. IMDA # 701-98-0013
2. IMDA # 701-90-0002
3. Jicarilla Contract 451
4. Jicarilla Contract 452
5. Jicarilla Contract 457
6. Jicarilla Contract 458
7. Jicarilla Contract 459
8. Jicarilla Contract 460
9. Jicarilla Contract 461
10. Jicarilla Contract 462
11. Jicarilla Contract 464



The topo map recently submitted by Mallon Oil Company depicts the above contracts. Under the proposed NSL blanket agreement the well shall be staked no closer than 790' from outer boundary line of the acreage involved (*Exhibit A-Figure 1*) and no closer than 10' to each $\frac{1}{4}$ $\frac{1}{4}$ line (*Exhibit A-Figure 2*). Each developmental well producing of a defined pool must be located on 160 acre spacing.

The ultimate Goal of Mallon Oil Company and the New Mexico State Oil Conservation Division is to develop the land in an orderly fashion and maintain steady production, and also prevent unnecessary waste, while protecting correlative rights of all parties involved. Within the past 2 years we have had an excessively high number of unorthodox permits, as we see no change in this trend this blanket would greatly reduce the paper flow between Mallon Oil Company and New Mexico Oil Conservation Division.

The purpose of the NSL Blanket is to increase vertical limits as follows:

Surface
San Jose
Nacimiento
Ojo Alamo
~~Basin-Fruitland-Coal~~ ← mit
Pictured Cliffs
~~Mesa Verde~~ ← mit

Also Mallon Oil Company will be able to accommodate all parties with surface concern.

Approved NSL Applications

Mallon Oil Company has recently been granted 3 non-standard locations for the following (*Exhibit B*):

Administrative Order NSL-4229

Jicarilla 29-02-09 No. 1
API # 30-039-26094
2097' FSL and 615' FWL
(NW SW) Unit L
Sec. 9, T29N-R02W

Administrative Order NSL-4230

Jicarilla 29-02-20 No. 1
API # 30-039-26093
860' FNL and 660' FWL
(NW NW) Unit D
Sec. 20, T29N-R02W

Administrative Order NSL-4231

Jicarilla 30-03-33 No. 2
API # 30-039-26030
702' FNL and 583' FWL
(NW NW) Unit D
Sec. 33, T30N-R03W

Proposed NSL Applications

In addition Mallon Oil Company would like to apply for the following Non-Standard Locations (*Exhibit C*):

Jicarilla 28-02-10 No. 1
754' FNL and 824' FWL
(NW NW) Unit D
Sec. 10, T28N-R02W

Jicarilla 29-02-16 No. 2
1761' FNL and 602' FEL
(SE NE) Unit H
Sec. 16, T29N-R02W

Jicarilla 29-02-29 No. 1
1768' FSL and 437' FWL
(NW SW) Unit L
Sec. 29, T29N-R02W

Jicarilla 30-03-36 No. 1
673' FNL and 580' FWL
(NW NW) Unit D
Sec. 36, T30N-R03W

Wellbore Placement- Department Considerations

There are various reasons why these wells are Non-Standard. Ultimately well bore location is highly influenced by several agencies concerned with the surface, which causes the well bore to be move from its original standard location. Main and highest priority is archeological, due to our involvement with tribal land there are high incidences of archeological sites. Game and Fish concerns have been critical because of the revenue generated by game and fish permitting. Topographical poses concern due

to the irregular terrain. Often Surface leaseholders express concerns for grazing area and family burial plots. Forestry strongly discourages the removal of ponderosa pine, as well as they have several project orchards. Environmental protection office encourages use of existing access roads and existing two tracks. Also, Tribal Oil and Gas has imposed strict parameters as to location within the spacing. However, due to the fracture permeability within the Ojo Alamo and Pictured Cliffs formation; which appears to enhance production, has allowed geology to play an important role in well bore placement.

Interest Holders

Mallon Oil Company is sole owner and operator of the oil and gas mineral rights to the IMDA Agreement # 701-98-0013. Enclosed is a copy of the Jicarilla Apache Tribe and Mallon Oil Company Indian Mineral Development Agreement (IMDA) #701-98-0013 (*Exhibit D*). Also attached is the Tribal Council Resolution #98-R-236-05 (*Exhibit E*). However, Mallon Oil Company is part owner and sole operator of the oil and gas mineral rights to IMDA # 701-90-0002, Jicarilla Contract 451, Jicarilla Contract 452, Jicarilla Contract 457, Jicarilla Contract 458, Jicarilla Contract 459, Jicarilla Contract 460, Jicarilla Contract 461, Jicarilla Contract 462, Jicarilla Contract 464. The land mentioned above can be found on the Jicarilla Apache Tribe reservation in Rio Arriba County, New Mexico. The following is a list of working interests to the land found in Rio Arriba County whom have been notified of the NSL blanket proposal:

1. Jicarilla Apache Tribe
2. Robert L. Bayless
3. Energen Resources Coporation
4. Roger R. Mitchell
Carol Irvin Mitchell
5. Phillip G. Lux
6. Eugene A. Lehman
% Continental Accessories
7. Richard W. Stout
8. Robert Patrick Simmet
c/o Simcote Inc.
9. Peter C. Simmet
c/o Simcote Inc.
10. John Paul Simmet
c/o Simcote Inc.
11. William C. Dedert
c/o Dedert Corporation
12. James Conway
13. Richard Kijowski

Please refer to *Exhibit F* for further information. According to the Jicarilla Apache Tribe there are no direct offset leaseholders. Please see *Exhibit G* for the correspondence I received from the Jicarilla Oil and Gas Administration.

Thank you for your assistance, if you have any questions or need further information please contact Christy Serrano at 970-382-9100 or via e-mail cserrano@frontier.net .