

**MESA GRANDE RESOURCES, INC.**

**1200 PHILTOWER BUILDING**

**TULSA, OKLAHOMA 74103**

**(918) 587-8494**

November 20, 1985

Mallon Oil Company  
2850 Security Life Building  
Denver, Colorado 80202

Attention: Karen E. McClintock

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

Dear Karen:

In response to your letter dated November 8, 1985 and in order to reiterate our prior phone conversation, please be advised that Mesa Grande Resources, Inc. ("Mesa Grande") finds an assessed Risk Factor of any amount to be unwarranted and unacceptable on the Mallon #12-5 Johnson Federal Well.

Mesa Grande was not extended the opportunity to join in the well prior to the drilling. Each time we have been contacted about our participation in the subject well, we have indicated our willingness to participate and pay our appropriate percentage. Mallon had the option to include our interest in the dedicated unit prior to spudding of the subject well and chose not to. In light of the events delineated above, taken together with the Rules and Regulations set out by the NMOCD for the Gavilan Area and the spacing patterns established prior to commencement of operations on this well, I believe that there is no substantiation for the Risk Factor which Mallon has included on our proposed AFE.

Mesa Grande respectfully requests the submittal of a revised AFE, eliminating the fifty percent mark up on our interest. After receipt of the AFE, we will be in a position to execute the associated agreements and return them with our interest payments.

Thank you for your attention to this matter.

Sincerely,  
MESA GRANDE RESOURCES, INC.

Gregory R. Phillips

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OCT 20 1985  
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