

DISTRICT I
1625 N. FRENCH DR., HOBBS, NM 88240

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

State of New Mexico

Energy, Minerals and Natural Resources Department

K-06-61
8/24/06

Form C-102

Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number 30 015 24292 75	Pool Code 42780	Pool Name Malaga; Bone Spring
Property Code	Property Name QUEEN LAKE 19 FEDERAL	Well Number 2
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING, INC.	Elevation 2964'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
F	19	24-S	29-E		2550	NORTH	1649	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

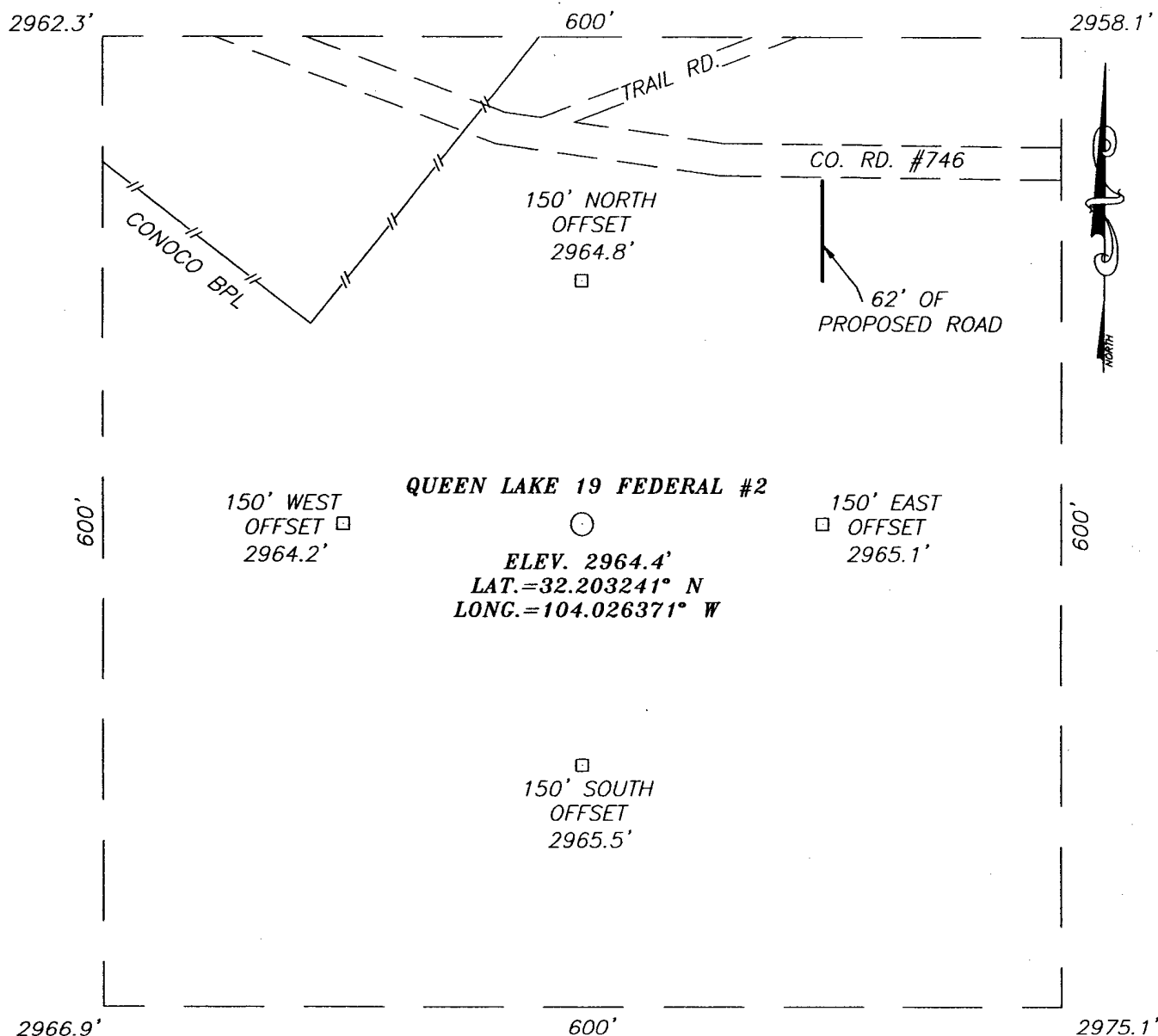
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
40			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	OPERATOR CERTIFICATION <i>I hereby certify that the information herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i> Signature: <u>Kathy F. Blick</u> Date: <u>8.4.06</u> Printed Name: <u>Kathy F. Blick</u>
	SURVEYOR CERTIFICATION <i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i> JULY 21, 2006 Date Surveyed: _____ JR Signature & Seal of Professional Surveyor: <u>Ronald E. Edson</u> 7/25/06 Certificate No. GARY EDSON 12841 RONALD E. EDSON 3239
	GEODETIC COORDINATES NAD 27 NME Y=437794.4 N X=594946.5 E LAT.=32.203241° N LONG.=104.026371° W

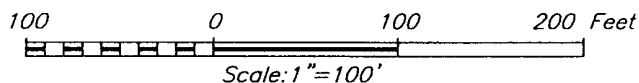
Revised
EXHIBIT A-1

SECTION 19, TOWNSHIP 24 SOUTH, RANGE 29 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO



DIRECTIONS TO LOCATION

FROM THE INTERSECTION OF CO. RD. #720 (DURATE RD.) AND CO. RD. #746 (MCDONALD RD.), GO SOUTH THEN SOUTHEAST ON CO. RD. #746 APPROX. 2.1 MILES. THIS LOCATION IS APPROX. 250 FEET SOUTH.



PROVIDING SURVEYING SERVICES
 SINCE 1946
JOHN WEST SURVEYING COMPANY
 412 N. DAL PASO
 HOBBS, N.M. 88240
 (505) 393-3117

CHESAPEAKE OPERATING, INC.

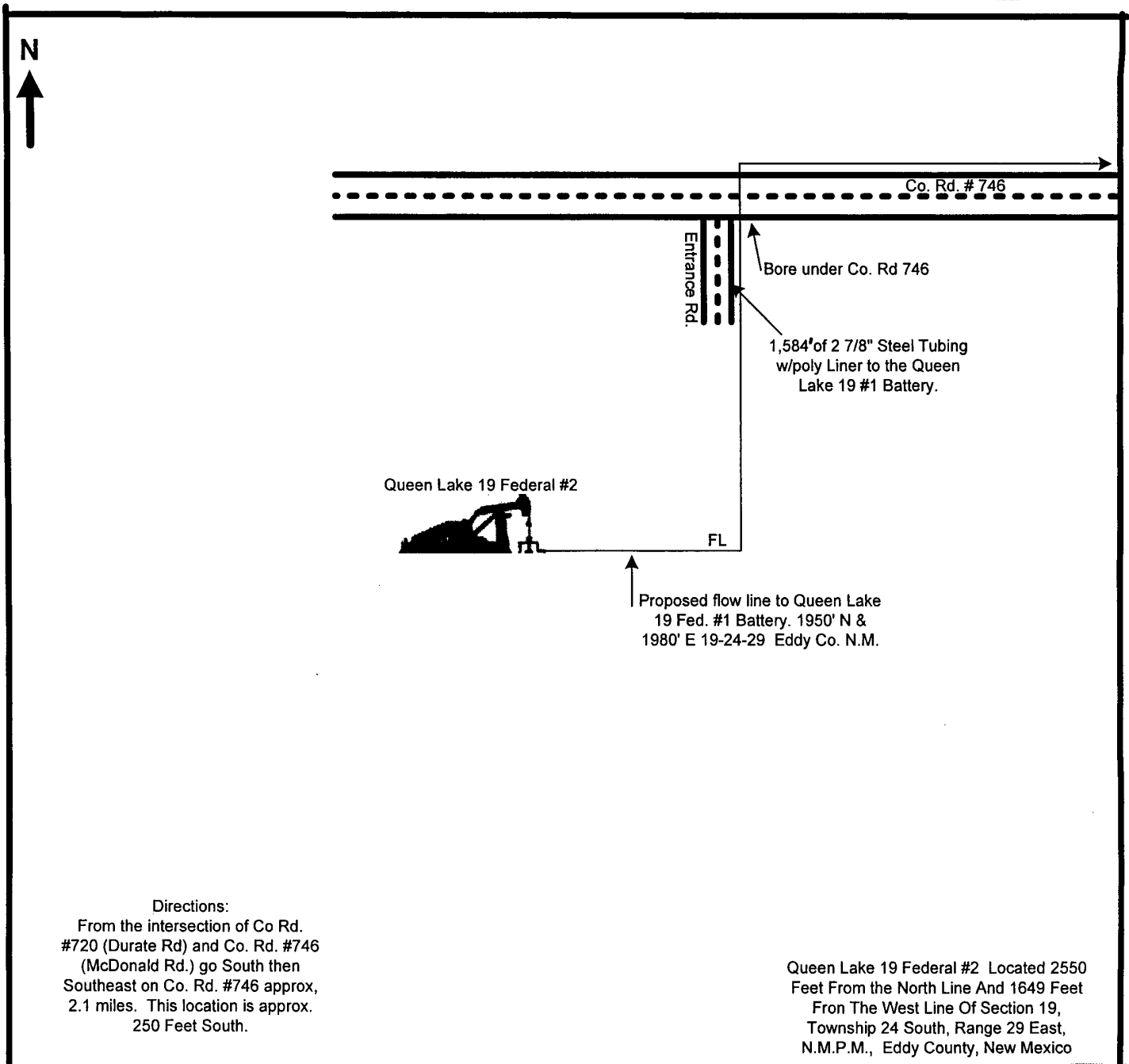
QUEEN LAKE 19 FEDERAL #2
 LOCATED 2550 FEET FROM THE NORTH LINE
 AND 1649 FEET FROM THE WEST LINE OF SECTION 19,
 TOWNSHIP 24 SOUTH, RANGE 29 EAST, N.M.P.M.,
 EDDY COUNTY, NEW MEXICO.

Survey Date: 07/21/06	Sheet 1 of 1 Sheets
W.O. Number: 06.11.1061	Dr By: J.R.
Date: 07/25/06	Rev 1: N/A
Disk: CD#6	06111061
	Scale: 1"=100'

Revised EXHIBIT A-2

CHESAPEAKE OPERATING, INC.

QUEEN LAKE 19 FEDERAL 2 19-24S-29E EDDY COUNTY, NM



Directions:
From the intersection of Co Rd.
#720 (Durate Rd) and Co. Rd. #746
(McDonald Rd.) go South then
Southeast on Co. Rd. #746 approx,
2.1 miles. This location is approx.
250 Feet South.

Queen Lake 19 Federal #2 Located 2550
Feet From the North Line And 1649 Feet
From The West Line Of Section 19,
Township 24 South, Range 29 East,
N.M.P.M., Eddy County, New Mexico

The Queen Lake 19 Federal #2 is three
miles South East of Malaga N.M.

This lease is subject to
Chesapeake's Site Security Plan
located at 6100 N. Western
Oklahoma City, OK 73118

Prepared by: DEBBIE HERNANDEZ
Date: 8-2-2006

Approved by:
Date:

EXHIBIT C

Prevailing Winds from the North in Winter and from the South in Summer.

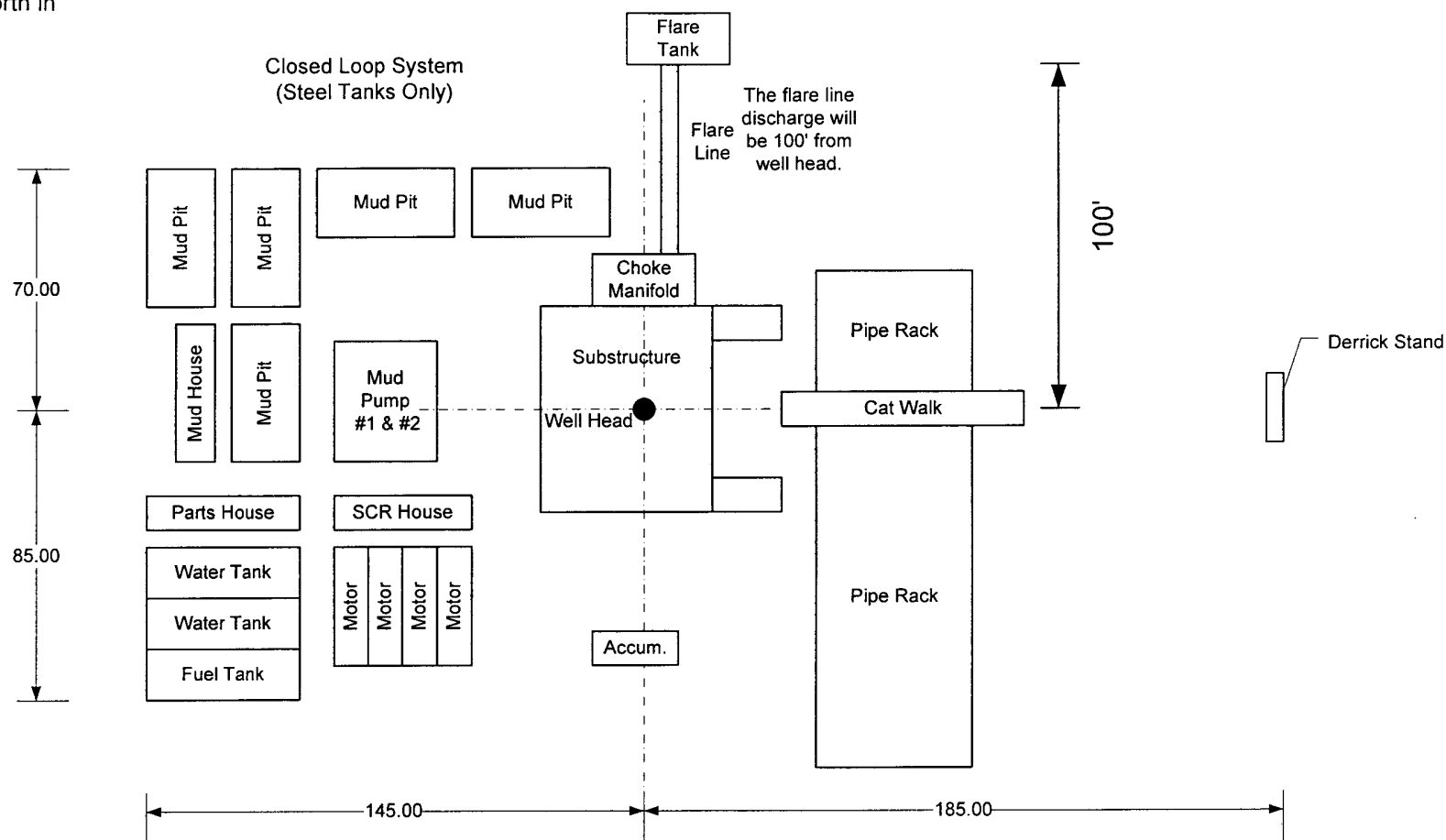


EXHIBIT D

Chesapeake Operating, Inc			
General Rig Layout			
SIZE	FSCM NO	DWG NO	REV
SCALE	Not to Scale	SHEET	1 OF 1

BLOWOUT PREVENTOR SCHEMATIC

CHESAPEAKE OPERATING INC

WELL : Queen lake 19 Federal #2

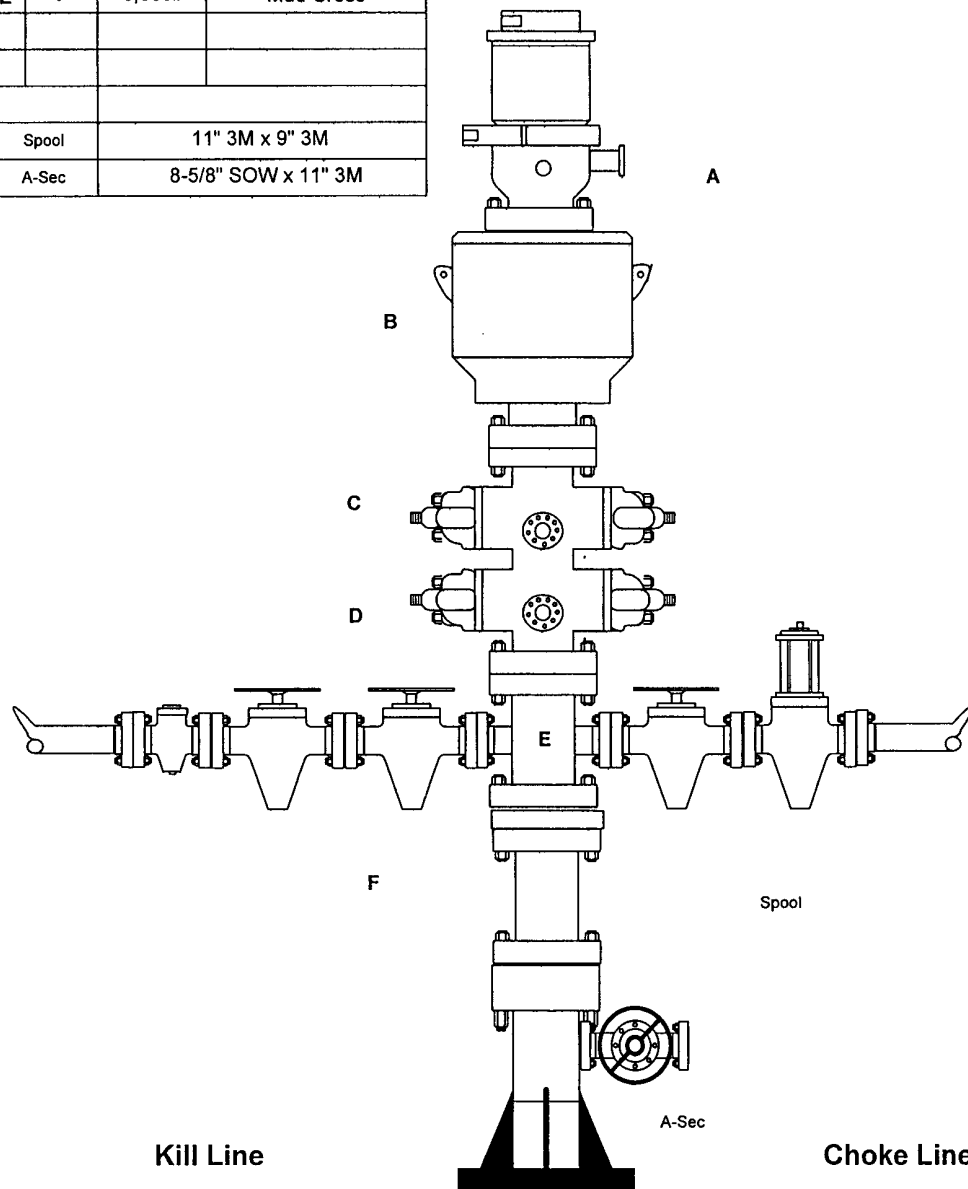
RIG :

COUNTY : Eddy

STATE: New Mexico

OPERATION: Drill out below 8-5/8" Casing

	SIZE	PRESSURE	DESCRIPTION
A	9"	500#	Rot Head
B	9"	3,000#	Annular
C	9"	3,000#	Pipe Rams
D	9"	3,000#	Blind Rams
E	9"	3,000#	Mud Cross
	Spool	11" 3M x 9" 3M	
	A-Sec	8-5/8" SOW x 11" 3M	



SIZE	PRESSURE	DESCRIPTION
3"	3,000#	Check Valve
3"	3,000#	Gate Valve
3"	3,000#	Gate Valve

EXHIBIT F

SIZE	PRESSURE	DESCRIPTION
3"	3,000#	Gate Valve
3"	3,000#	HCR Valve

ONSHORE OIL & GAS ORDER NO. 1
Approval of Operations on Onshore
Federal and Indian Oil and Gas Leases

1. EXISTING ROADS

- a. Existing county and lease roads will be used to enter proposed access road.
- b. Location, access, and vicinity plats attached hereto. See Exhibits A-1 to A-4.

2. PLANNED ACCESS ROADS

- a. An existing access road 62' in length and 14' in travel way width with a maximum disturbance area of 30' will be used, and in accordance with guidelines set forth in the BLM Onshore Orders. No turnouts are expected.
- b. In order to level the location, cut and fill will be required. Please see attached Well Location and Acreage Dedication Plat – Exhibits A-1 to A-4.
- c. A locking gate will be installed at the site entrance.
- d. Any fences cut will be repaired. Cattle guards will be installed, if needed.
- e. Surface disturbance and vehicular travel will be limited to the approved location and approved access route. Any additional area needed will be approved in advance.
- f. Driving directions are from the intersection of County Rd #720 (Durate Rd) and County Rd #746 (McDonald Rd), go South then Southeast on County Rd #746 approx. 2.1 miles. This location is approx. 250' South.

3. LOCATION OF EXISTING WELLS WITHIN A 1-MILE RADIUS OF THE PROPOSED LOCATION – see Exhibit B.

4. LOCATION OF PRODUCTION FACILITIES

It is anticipated that production facilities will be located on the well pad as product will be sold at the Queen Lake 19 Fed 1 tank battery. We proposed to run 1584' of 2 7/8" Steel Tubing w/poly Liner to the tank battery. – See Exhibit C

5. LOCATION AND TYPE OF WATER SUPPLY

Water will be obtained from a private water source. Chesapeake Operating, Inc. will ensure all proper notifications and filings are made with the state.

6. CONSTRUCTION MATERIALS

No construction materials will be used from Section 19-24S-29E. All material (i.e. shale) will be acquired from private or commercial sources.

7. METHODS FOR HANDLING WASTE DISPOSAL

A closed system will be utilized consisting of above ground steel tanks. All wastes accumulated during drilling operations will be contained in a portable trash cage and removed from location and deposited in an approved sanitary landfill. Sanitary wastes will be contained in a chemical porta-toilet and then hauled to an approved sanitary landfill.

8. ANCILLARY FACILITIES

None

9. WELLSITE LAYOUT

The proposed site layout plat is attached showing rig orientation and equipment location. See Exhibit D. Also see Exhibit A-2 for the size of the pad.

10. PLANS FOR RECLAMATION OF THE SURFACE

The location will be restored to as near as original condition as possible. Reclamation of the surface shall be done in strict compliance with the existing Oklahoma Corporation Commission regulations.

Backfilling leveling, and contouring are planned as soon as the drilling rig and steel tanks are removed. Wastes and spoils materials will be buried immediately after drilling is completed. If production is obtained, the unused area will be restored as soon as possible. The rehabilitation will begin after the drilling rig is removed.

11. SURFACE & MINERAL OWNERSHIP

United States of America
Department of Interior
Bureau of Land Management

GRAZING LESSEE

Jerry Ballard
P. O. Box 60
Malaga, NM 88263

(Chesapeake Operating, Inc. has an agreement with the grazing lessee)

ONSHORE ORDER NO. 1
Chesapeake Operating, Inc.
Queen Lake 19 Federal 2
2550 FNL 1649 FWL
SENW of Section 19-24S-29E
Eddy County, NM

CONFIDENTIAL – TIGHT HOLE

Lease No. NMNM 017224

SURFACE USE PLAN
Page 3

12. ADDITIONAL INFORMATION

A Class III cultural resource inventory report was prepared by Boone Archaeological Services, Carlsbad, New Mexico for the proposed location. A copy of the report has been sent to the BLM office under separate cover and is also attached for reference. See Exhibit E.

Chesapeake Operating, Inc. agrees to be responsible under the terms and conditions of the lease for the operations conducted upon the lease lands.

13. OPERATOR'S REPRESENTATIVES

Drilling and Completion Operations

Jarvis Hensley
District Manager – Northern Permian
P.O. Box 18496
Oklahoma City, OK 73154
(405) 879-7863 (OFFICE)
(405) 879-9529 (FAX)
jhensley@chkenergy.com

Sr. Drilling Engineer

Randy Patterson
P.O. Box 14896
Oklahoma City, OK 73154
(405) 767-4056 (OFFICE)
(405) 767-4225 (FAX)
(405) 388-9002 (MOBILE)
rpatterson@chkenergy.com

Sr. Field Representative

Cecil Gutierrez
P.O. Box 11050
Midland, TX 79705
432-687-2992 (OFFICE)
432-687-3675 (FAX)
cgutierrez@chkenergy.com

Asset Manager

Andrew McCalmont
P.O. Box 18496
Oklahoma City, OK 73154-0496
405-879-7852 (OFFICE)
405-879-7930 (FAX)
amccalmont@chkenergy.com

Regulatory Compliance

Linda Good
Permitting Agent
P.O. Box 18496
Oklahoma City, OK 73154
(405) 767-4275 (OFFICE)
(405) 879-9583 (FAX)
lgood@chkenergy.com

ONSHORE ORDER NO. 1
Chesapeake Operating, Inc.
Queen Lake 19 Federal 2
2550 FNL 1649 FWL
SENW of Section 19-24S-29E
Eddy County, NM

CONFIDENTIAL – TIGHT HOLE

Lease No. NMNM 017224

SURFACE USE PLAN

Page 4

14. CERTIFICATION

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in this surface use plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed will be performed by operator (including contractors and subcontractors) submitting the APD, in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

By: 

Henry Hood

Sr. Vice President – Land & Legal & General Counsel

Date: 8/18/06

ONSHORE OIL & GAS ORDER NO. 1
Approval of Operations on Onshore
Federal and Indian Oil and Gas Leases

All lease and/or unit operations are to be conducted in such a manner that full compliance is made with the applicable laws, regulations (CFR 43, Part 3160) and the approved Application for Permit to Drill. The operator is considered fully responsible for the actions of his subcontractors. A copy of the approved APD must be on location during construction, drilling and completion operations.

Approval of this application does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease, which would entitle the applicant to conduct operations thereon.

1. FORMATION TOPS

The estimated tops of important geologic markers are as follows:

Formation	Subsea	Depth
BASE OF SALT	446	2530'
BASE OF ANHYDRITE	270'	2704'
LAMAR LIME	270'	2704'
*BELL CANYON	229'	2,745'
*CHERRY CANYON	-525'	3,499'
MANZANITA MARKER	-823'	3,798'
**WILLOW LAKE PAY ZONE	-1,922'	4,896'
**WILLOW LAKE HORZ PAY ZONE	-2,080'	5,054
**WILLOW LAKE PAY ZONE 2	-2,108'	5,082'
BRUSHY CANYON	-2,268'	5,242'
**BASAL BRUSHY CANYON	-3,181'	6,155'
BONE SPRING LIME	-3,508'	6,483'
**Potentially productive zones		
TD		6,600'

2. ESTIMATED DEPTH OF WATER, OIL, GAS & OTHER MINERAL BEARING FORMATIONS

The estimated depths at which the top and bottom of the anticipated water, oil, gas or other mineral bearing formations are expected to be encountered are as follows:

Substance	Formation	Depth
Oil/Gas	Bell Canyon	2745-3499
Oil/Gas	Cherry Canyon	3499-5242
Oil/Gas	Brushy Canyon	5242-6483

All shows of fresh water and minerals will be reported and protected.

3. BOP EQUIPMENT: 3,000# System

Chesapeake Operating, Inc.'s minimum specifications for pressure control equipment are as follows:

I. BOP, Annular, Choke Manifold, Pressure Test - See Exhibit F.

A. Equipment

1. The equipment to be tested includes all of the following that is installed on the well:
 - (a) Ram-type and annular preventers,
 - (b) Choke manifolds and valves,
 - (c) Kill lines and valves, and
 - (d) Upper and lower kelly cock valves, inside BOP's and safety valves.

B. Test Frequency

1. All tests should be performed with clear water,
 - (a) when installed,
 - (b) before drilling out each casing string,
 - (c) at any time that there is a repair requiring a pressure seal to be broken in the assembly, and
 - (d) at least once every 30 days while drilling.

C. Test Pressure

1. In some drilling operations, the pressures to be used for low and high-pressure testing of preventers and casing may be different from those given below due to governmental regulations, or approved local practices.
2. If an individual component does not test at the low pressure, **do not**, test to the high pressure and then drop back down to the low pressure.
3. All valves located downstream of a valve being tested must be placed in the open position.
4. All equipment will be tested with an initial "low pressure" test at 250 psi.
5. The subsequent "high pressure" test will be conducted at the rated working pressure of the equipment for all equipment except the annular preventer.
6. The "high pressure" test for the annular preventer will be conducted at 70% of
7. the rated working pressure.
8. A record of all pressures will be made on a pressure-recording chart.

D. Test Duration

1. In each case, the individual components should be monitored for leaks for 5 minutes, with no observable pressure decline, once the test pressure as been applied.

II. Accumulator Performance Test

A. Scope

1. The purpose of this test is to check the capabilities of the BOP control systems, and to detect deficiencies in the hydraulic oil volume and recharge time.

B. Test Frequency

1. The accumulator is to be tested each time the BOP's are tested, or any time a major repair is performed.

C. Minimum Requirements

1. The accumulator should be of sufficient volume to supply 1.5 times the volume to close and hold all BOP equipment in sequence, **without recharging** and the **pump turned off**, and have remaining pressures of **200 PSI above the precharge pressure**.

2. Minimum precharge pressures for the various accumulator systems per **manufacturers recommended specifications** are as follows:

3.

<u>System Operating Pressures</u>	<u>Precharge Pressure</u>
1500 PSI	750 PSI
2000 PSI	1,000 PSI
3000 PSI	1,000 PSI

3. Closing times for the Hydril should be less than **20 seconds**, and for the ram-type preventers less than **10 seconds**.
4. System Recharge time should not exceed **10 minutes**.

D. Test Procedure

1. Shut accumulator pumps off and record accumulator pressure.
2. In sequence, close the annular and one set of properly sized pipe rams, and open the HCR valve.
3. Record time to close or open each element and the remaining accumulator pressure after each operation.
4. Record the remaining accumulator pressure at the end of the test sequence. Per the previous requirement, this pressure **should not be less** than the following pressures:

System Pressure

1,500 PSI
2,000 PSI
3,000 PSI

Remaining Pressure At Conclusion of
Test

950 PSI
1,200 PSI
1,200 PSI

5. Turn the accumulator pumps on and record the recharge time. This time should not exceed **10 minutes.**
6. Open annular and ram-type preventers. Close HCR valve.
7. Place all 4-way control valves in **full open** or **full closed** position. **Do not leave in neutral position.**

4. CASING AND CEMENTING PROGRAM

- a. The proposed casing program will be as follows:

<u>Purpose</u>	<u>Interval</u>	<u>Hole Size</u>	<u>Casing Size</u>	<u>Weight</u>	<u>Grade</u>	<u>Thread</u>	<u>Condition</u>
Surface WITNESS	0-650	11	8.625	24	J55	STC	New
Intermediate <i>PRODUCTION</i>	650-6600	7.875	5.5	15.5	J55	LTC	New

- b. Casing design subject to revision based on geologic conditions encountered.
- c. The cementing program will be as follows:

<u>Interval</u>	<u>Type</u>	<u>Amount</u>	<u>Yield</u>	<u>Washout</u>	<u>Excess</u>
0-650	Class C + additives	300	1.4	40	100
650-6600	Class C + additives	580/450	2.03/1.26	20	50

5. MUD PROGRAM

- a. The proposed circulating mediums to be used in drilling are as follows:

<u>Interval</u>	<u>Mud Type</u>	<u>Mud Weight</u>	<u>Viscosity</u>	<u>Fluid Loss</u>
0-650	Fresh water	8.4-9.0	32-34	NC
650-6600	Cut brine	10.0	30-32	10-12

A closed system will be utilized consisting of above ground steel tanks. All wastes accumulated during drilling operations will be contained in a portable trash cage and removed from location and deposited in an approved sanitary landfill.

A mud test shall be performed every 24 hours after mudding up to determine, as applicable: density, viscosity, gel strength, filtration, and pH.

ONSHORE ORDER NO. 1
Chesapeake Operating, Inc.
Queen Lake 19 Federal 2
2550 FNL 1649 FWL
SE NW of Section 19-24S-29E
Eddy County, NM

CONFIDENTIAL – TIGHT HOLE
Lease Contract No. NMNM 017224

DRILLING PLAN

Page 5

6. TESTING, LOGGING AND CORING

The anticipated type and amount of testing, logging and coring are as follows:

- a. Drill stem tests are not planned.
- b. The logging program will consist of Natural GR, Density-Neutron, PE & Dual Laterolog from TD to surface casing; Neutron-GR surface casing to surface.
- c. Cores samples are not planned.

7. ABNORMAL PRESSURES AND HYDROGEN SULFIDE

- a. The estimated bottom hole pressure is 2500 psi. No abnormal pressures or temperatures are anticipated.
- b. Hydrogen sulfide gas is not anticipated

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Chesapeake Operating, Inc.
Well Name & No. Queen Lake 19 Federal #2
Location: 2550' FNL, 1649' FWL, Section 19, T. 24 S., R. 29 E., Eddy County, New Mexico
Lease: NM-17224

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:

- A. Well spud
- B. Cementing casing 8-5/8 inch 5-1/2 inch
- C. BOP tests

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15-day time frame.

4. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

II. CASING:

1. The 8-5/8 inch surface casing shall be set at approximately 650 feet and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 5-1/2 inch production casing is to reach at least 500 feet above the top of the uppermost hydrocarbon productive interval.

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 8-5/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 2000 psi.

3. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

December 12, 2006

HAND DELIVERY

Mr. Mark Fesmire, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Chesapeake Operating, Inc., for administrative approval of an unorthodox well location for its Queen Lake 19 Federal Well No. 2, to be drilled to the Bone Springs formation at a location 2550 feet from the North line and 1649 feet from the West line of Section 19, Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

Dear Mr. Fesmire:

Chesapeake Operating, Inc. ("Chesapeake") hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F (2)-(4) of an unorthodox well location for its Queen Lake 19 Federal Well No. 2, in the Malaga Bone Springs Pool, to be drilled at a location 2550 feet from the North line and 1649 feet from the West line of Section 19 (Unit F), Township 24 South, Range 29 East, N.M.P.M., Eddy County, New Mexico.

This proposed location in the Bone Springs formation is unorthodox because it is governed by the Division's Statewide Rules which provides for wells on 40-acre spacing units to be located no closer than 330 feet to any boundary of the unit. The proposed location is only 90 feet from the southern boundary of the spacing unit and 329 feet from the western boundary of the spacing unit. A standard 40-acre spacing unit and proration unit comprised of the SE/4 NW/4 of Section 19 will be dedicated to the well.

The non-standard location is required by topographical conditions. The Bureau of Land Management (BLM) is requiring Chesapeake to drill the proposed well from this surface location due to several surface issues. Chesapeake had originally proposed the well 1980 feet from the North and the West lines. However, this location was too close to a river and a cutting field. Additionally, there is an archeological stake north of the

Holland & Hart LLP

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C.



original location. Therefore, Chesapeake and the BLM agreed to the proposed location. **Exhibit A** is the C-102 showing the proposed well location and dedicated spacing unit.

This location encroaches on the spacing units to the south and to the west. The adjoining spacing unit to the east is dedicated to the Chesapeake Queen Lake 19 Federal Well No. 1 which is temporarily abandoned. There are no other wells in Section 19. Chesapeake is the only operator and owns all the minerals in Section 19. Therefore there are no affected parties as defined by Division rules and no notice is required.

Also enclosed is a proposed administrative order prepared by Chesapeake on behalf of the Division.

Your attention to this application is appreciated.

Sincerely,

Ocean Munds-Dry
ATTORNEY FOR CHESAPEAKE
OPERATING, INC.

Enclosures

cc: Jerris Johnson

Chesapeake Operating, Inc.

Attention: Jerris Johnson

Administrative Order NSL-_____

Dear Mr. Johnson:

Reference is made to your application dated December 12, 2006 for an unorthodox well location for Chesapeake Operating, Inc.'s Queen Lake 19 Federal Well No.2 to be drilled to the Bone Springs formation, Malaga-Bone Springs Pool. Said well will be located 2550 feet from the North line and 1649 feet from the West line of Section 19, Township 24 South, Range 29 East, NMPM, Eddy County, New Mexico.

A 40-acre spacing and proration unit in the Bone Springs formation comprising the SE/4 NW/4 of said Section 19 is to be dedicated to said well.

This application has been duly filed under the provisions of Rule 104.F of the General Rules of the Oil Conservation Division revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

By authority granted me under the provisions of Rule 104.F(2), the above-described unorthodox well location within this 40-acre unit in the Bone Springs formation is hereby approved.

Sincerely,

Mark E. Fesmire, P.E.
Director

cc: Oil Conservation Division - Hobbs/Artesia