

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

October 30, 2007

James Bruce
Attorney at Law
P.O. Box 1056
Santa Fe, NM 87501

RE: **Munchikin Federal Well No. 11 (API No. 30-015-35790)**
2418 feet FNL & 541 feet FWL Section 12, (Surface Location)
2340 feet FSL & 52 feet FEL Sect. 11 (Top of Delaware) (Unorthodox)
2100 feet FSL & 330 feet FEL (Bottom-Hole Location)
NE/4SE/4 of Section 11, T-19 -S, R-30-E,
NMPM, Eddy County, New Mexico

Administrative Order NSL-5707

Dear Mr. Bruce:

Reference is made to the following:

(a) your application (**administrative application reference No. pTDS0727548544**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on October 3, 2007, on behalf of Chi Operating, Inc. ("Chi"); and

(b) the Division's records pertinent to Chi's request.

Chi Operating, Inc. requests to drill its Munchikin Federal Well No. 11 as a horizontal well at an unorthodox Delaware oil well location as referenced above in Section 11, Township 19 South, Range 30 East, N.M.P.M., in Eddy County, New Mexico.

The NE/4SE/4 of Section 11 will be dedicated to this well to form a standard 40-acre oil spacing and proration unit. Chi operating, Inc. intends to test the Delaware formation, Benson-Delaware Pool. These pools are governed by the Division's Statewide Rules and Regulations which provide for wells on 40-acre spacing units to be located no closer than 330 feet to the outer boundary of the quarter-quarter section on which the well is located.

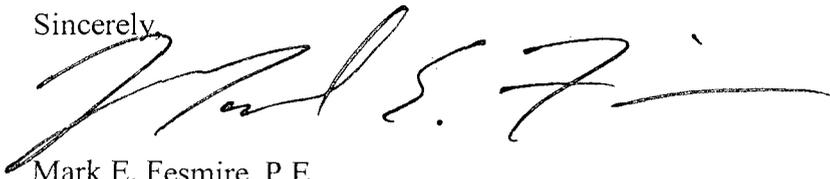
Your application on behalf of Chi Operating, Inc. has been duly filed under the provisions of Division Rules 104. F. It is our understanding that the E/2 of Section 11, and the W/2 of Section 12 are subject to the Federal lease NM 0560353, and this acreage has common ownership in the Delaware formation, therefore no notice of this application is required.

It is our understanding that the unorthodox location of this well is necessitated by the presence of a recreational area, and that the Bureau of Land management (BLM) required that the surface location of this well be in the SW/4NW/4 of Section 12.

Pursuant to the authority granted under the provisions of Division Rules 104. F(2), the above-described unorthodox Delaware, Benson-Delaware oil pool location is hereby approved.

Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', written over a horizontal line.

Mark E. Fesmire, P.E.
Director

MEF/re

cc: New Mexico Oil Conservation Division - Artesia