



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

April 7, 2004

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

Murchison Oil & Gas, Inc.
1100 Mira Vista Blvd.
Plano, Texas 75093-4698

Telefax No. (972) 931-0701

Attention: Michael S. Daugherty
Vice President Operations

Administrative Order NSL-5042

Dear Mr. Daugherty:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-409346664*) submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe on April 2, 2004; and (ii) the Division's records in Santa Fe and Artesia, including the file on Division Administrative Order NSL-4702: all concerning Murchison Oil & Gas, Inc.'s ("Murchison") request for an unorthodox Wolfcamp oil well location within the proposed 40-acre standard oil spacing and proration unit comprising the SE/4 NE/4 (Unit H) of Section 2, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico.

This unit is to be dedicated to Murchison's plugged and abandoned Huggie Bear State Com. Well No. 1 (API No. 30-015-32176), located 1420 feet from the North line and 990 feet from the East line of Section 2.

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

It is the Division's understanding after reviewing your application and public records that this well was permitted by Murchison only as a Morrow gas test within a standard 318.64-acre deep gas spacing unit comprising Lots 1 and 2, the S/2 NE/4, and the SE/4 of Section 2 (see Division Form C-101, "Application for Permit to Drill," dated January 25, 2002, as amended by Division Form C-103, "Sundry Notice and Report on Wells," dated March 4, 2003); this well was subsequently spud on April 9, 2003, drilled to a total depth of 10,422 feet on April 28, 2003, whereby the Morrow test was unsuccessful, and the well was subsequently plugged and abandoned on April 30, 2003.

It is further understood that Murchison now intends to reenter this well and attempt an oil completion up-hole into the Wolfcamp formation, which is within the governing limits of the North Anderson-Wolfcamp Pool (97183) with perforations from 7,434 feet to 7,544 feet. Pursuant to Division Rule 104.B (1), as revised, this Wolfcamp oil location is considered to be "unorthodox" for the proposed standard 40-acre oil spacing and proration unit.

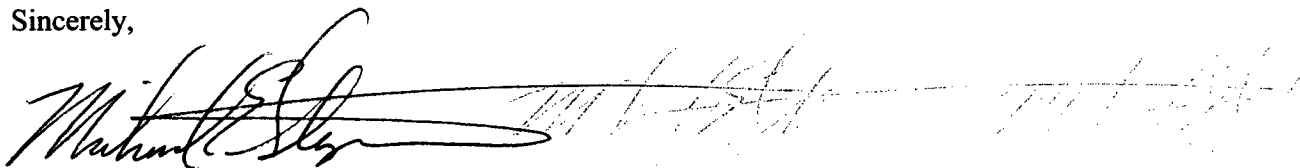
Furthermore, Lots 1 and 2 and the S/2 NE/4 (NE/4 equivalent) of Section 2 is a single state lease issued by the New Mexico State Land Office (State Lease No. E-09782) in which all mineral interest is common and Murchison is the leasehold operator.

By the authority granted me under the provision of Division Rule 104.F (2), as revised, the above-described unorthodox Undesignated North Anderson-Wolfcamp oil well location is hereby approved.

AS A SUGGESTION, Murchison should take additional steps in the future to stake wells at, or avoid moving wells from, locations considered to be standard for all possible zones to be encountered and should be aware of well location requirements for different producing horizons within the immediate area of operations.

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

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Michael E. Stogner', is written over a horizontal line.

Michael E. Stogner
Engineer/Hearing Officer

MES/ms

cc: New Mexico Oil Conservation Division – Artesia
New Mexico State Land Office – Santa Fe