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July 30, 2004

Hand Delivered

Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

Pursuant to Division Order No. R-8170-P, Arch Petroleum Inc. applies for a 160 acre non-standard gas spacing and proration unit, and an unorthodox gas well location, in the Jalmat Gas Pool for the following acreage:

<u>Well:</u>	Kelly State Well No. 5
<u>Location:</u>	1310 feet FSL & 1310 feet FWL
<u>Well Unit:</u>	SW¼ §16, Township 23 South, Range 37 East, N.M.P.M., Lea County, New Mexico

The special rules for the Jalmat Gas Pool establish 640 acre spacing, with a provision for 160 acre units, and wells to be no closer than 660 feet to the outer boundary of the well unit nor closer than 330 feet to a quarter-quarter section line.

The well will be drilled to a depth sufficient to test the Langlie-Mattix Pool, which is spaced on 40 acres under regulations of the Division, with wells to be no closer than 330 feet to a quarter-quarter section line. A Form C-102 will be submitted separately.

The well's location is based on drainage factors in the Langlie-Mattix Pool. The Kelly State Well Nos. 1-4 were drilled in the late 1950s and completed in the Langlie-Mattix Pool. Those wells are located in the center of each quarter-quarter section in the SW¼ of Section 16. Applicant believes that the proposed location in the center of the four existing wells will allow it to recover remaining Langlie-Mattix reserves.

Fulfer Exhibit /
NMOCD Case No. 13343

There is also Jalmat potential in the well, and applicant requests approval of the non-standard unit. The Yates-Seven Rivers reservoir grades from a porous dolomitic sand downdip to a dolomite updip on the Teague Anticline. Wells 2-3 miles to the west have much thick dolomitic sand with 15-20% porosity, while porosity ranges from 8-12% in the area of the proposed well. There is a direct relationship between porosity and permeability in the reservoir. As a result, Jalmat wells on the Teague structure will not effectively drain 160 acres.

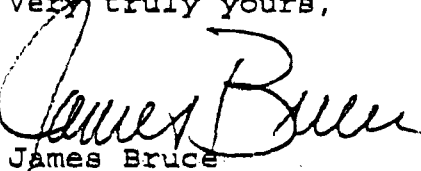
Attached as supporting data are the following:

- Exhibit A: Production map, showing that virtually all Jalmat production is west of the proposed well.
- Exhibit B: Yates structure map.
- Exhibit C: Scout ticket for the Johnson Well No. 3 in the SE~~1~~NE~~4~~ of Section 20, reflecting a high initial rate.
- Exhibit D: Well test reports from the C.E. Lamunyon Fed. Well Nos. 23, 32, and 78 in Section 28, located to the south of the proposed well, which also show good rates from wells close to each other.

Pursuant to Order No. R-8170-P, all offsets operators, working interest owners, and/or royalty owners have been notified of this application. A listing of offset leases is attached as Exhibit E. A copy of the notice letter is attached as Exhibit F.

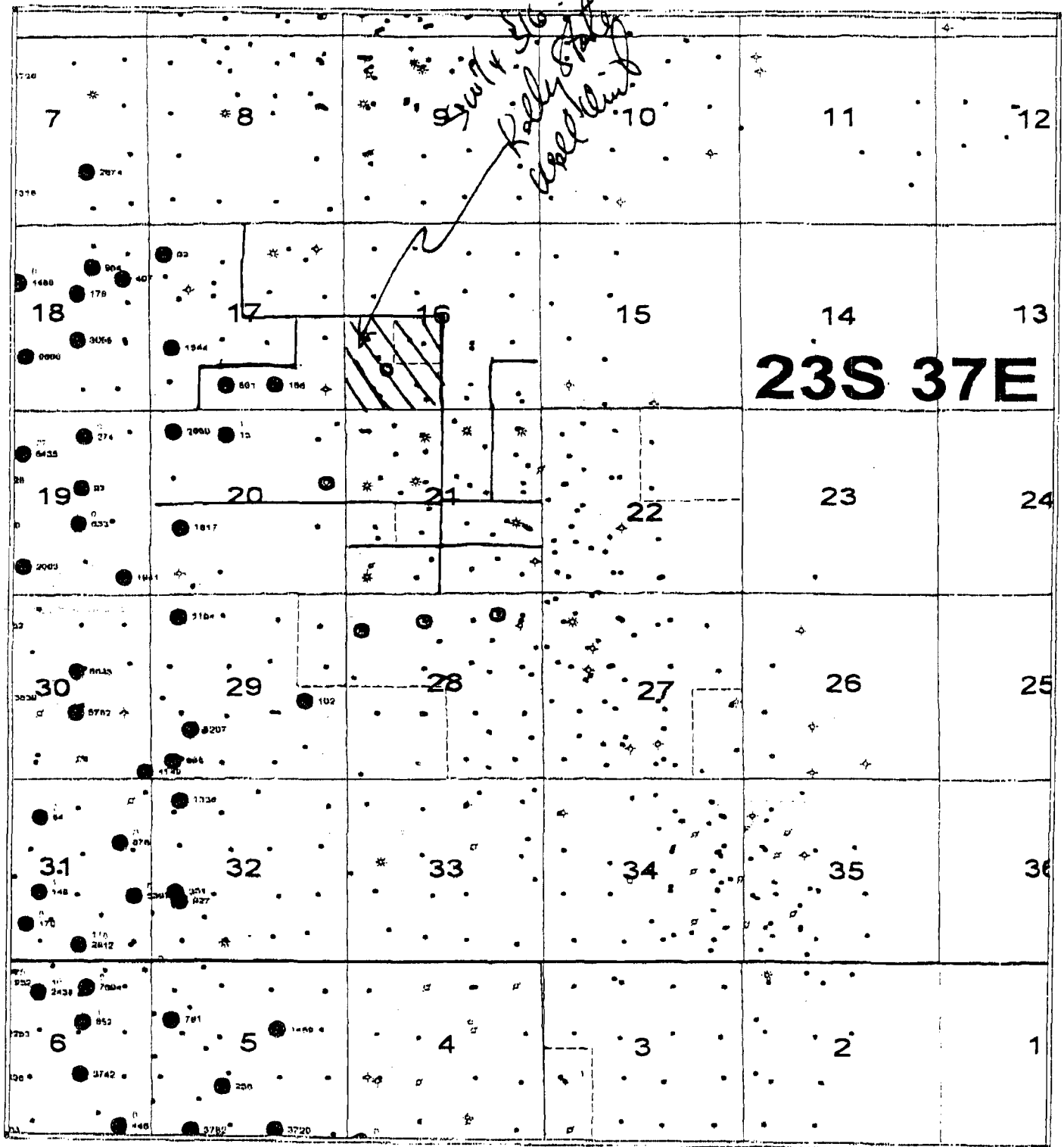
Please call me if you need anything further regarding this matter.

Very truly yours,



James Bruce

Attorney for Arch Petroleum Inc.



LEGEND

- PROD T-Y-7
- Recent Jalmat Completions
- ▭ ARCH LEASEHOLD

ARCH PETROLEUM INC

TEAGUE FIELD AREA
LEA COUNTY, NEW MEXICO
JALMAT PROD MAP

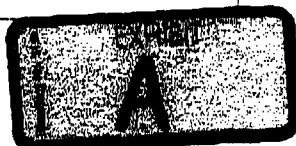
GLENN CURRY

ALL WELLS

3/6/2004

Scale 1:48000

JALMATlg



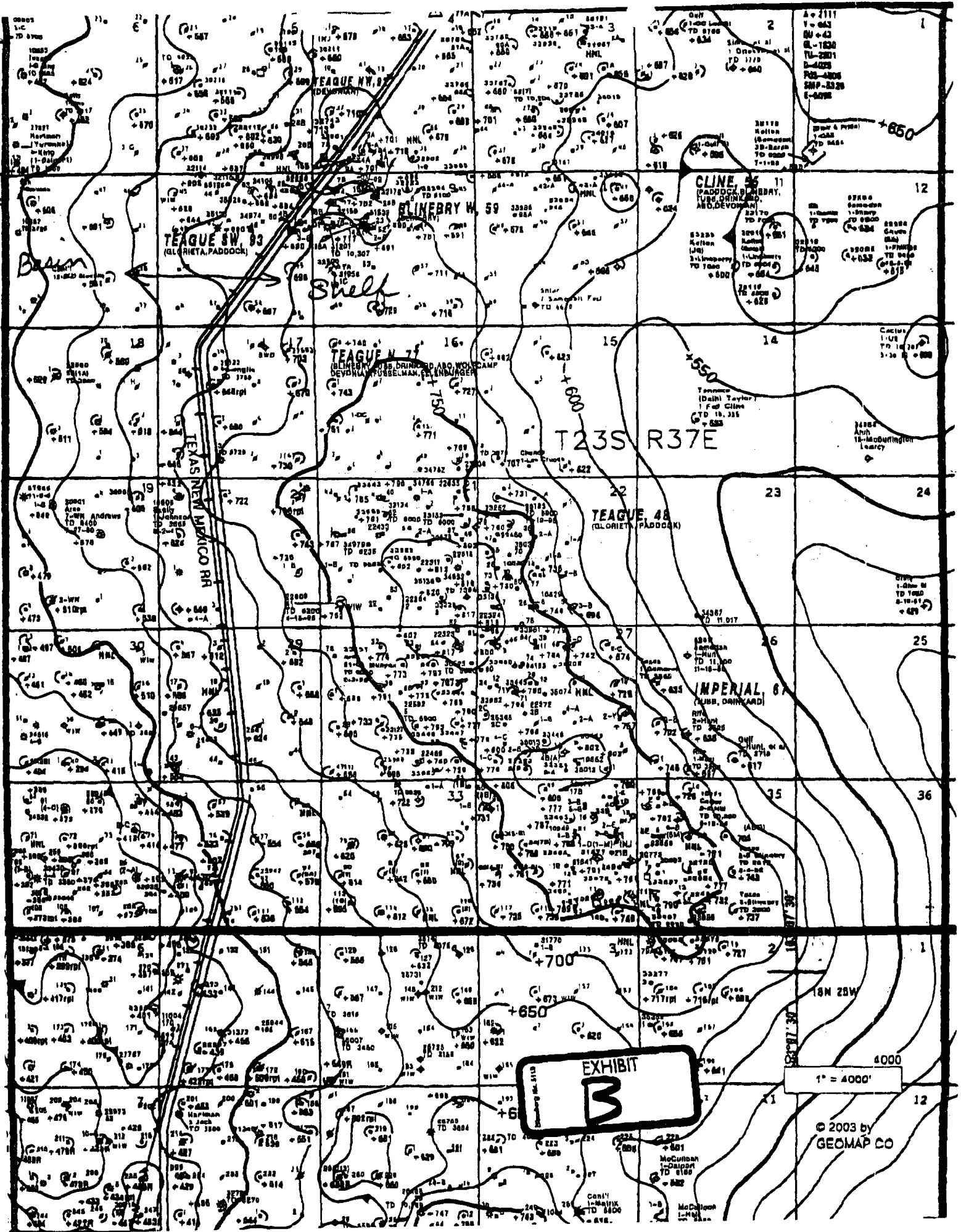


EXHIBIT
B

1" = 4000'

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Date: 3/5/2004

Time: 1:16 PM

PI/Dwights PLUS on CD Well Summary Report

General Information					
State	:	NEW MEXICO	Final Status	:	
County	:	LEA	Drill Total Depth	:	
Field	:	JALMAT	Log Total Depth	:	
Operator Name	:	FULFER OIL & CATTLE	True Vertical Depth	:	
Lease Name	:	JOHNSON J C			
Well Number	:	3	Spud Date	:	
API Number	:	30025108080001	Comp Date	:	
Regulatory API	:				
Init Lease Class	:	D X	Hole Direction	:	VERTICAL
Final Lease Class	:		Reference Elevation	:	
Permit Number	:		Ground Elevation	:	
Geologic Province	:	PERMIAN BASIN	KB Elevation	:	
Formation at TD	:				
Oldest Age Pen	:				
Township	:	23 S	Section	:	20 SEC
Range	:	37 E	Spot	:	C SE NE
Base Meridian	:	NEW MEXICO			
Additional Location Information					
Footage Location	:	1980 FNL 660 FEL CONGRESS SECTION			
Latitude	:	32.2914500	Latitude (Bot)	:	
Longitude	:	-103.1780400	Longitude (Bot)	:	
Lat/Long. Source	:	TS			
Location Narrative	:	Type	Remark		
		SCALED_FOOT	REGULATORY		
		IRREG_SECT	N		

Re enter old well + completed as
Jalmat Producer

Initial Rate 1,000 MCFD.

Feb 2004



Oil Well Test Summary Report

Battery: C.E. LAMUNYON BATT #1

Satellite: Lamunyon 1 Satellite

Well: #78 C.E. Lamunyon

Start Date: 11/01/2003

End Date: 03/04/2004

#78 C.E. Lamunyon...	Date	Time	Single Day	11	10	100	0	47.82	9.09	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/11/2003	19.00	Single Day	0	0	969	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/12/2003	24.00	Single Day	0	8	1,058	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/13/2003	24.00	Single Day	0	3	1,089	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/14/2003	24.00	Single Day	0	12	1,233	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/15/2003	24.00	Single Day	0	4	1,188	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/16/2003	24.00	Single Day	0	8	1,188	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/17/2003	24.00	Single Day	0	4	1,148	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	11/25/2003	24.00	Single Day	0	1	856	0	100.00	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	12/02/2003	24.00	Single Day	0	0	684	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	12/03/2003	24.00	Single Day	0	0	684	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	12/22/2003	24.00	Single Day	0	0	423	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	01/14/2004	24.00	Single Day	0	0	300	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	01/18/2004	24.00	Single Day	0	0	580	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	02/01/2004	24.00	Single Day	0	0	480	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	02/06/2004	24.00	Single Day	0	0	417	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	02/10/2004	24.00	Single Day	0	0	475	0	-7-	-7-	-7-	-7-	-7-	-7-
#78 C.E. Lamunyon...	02/18/2004	24.00	Single Day	0	0	417	0	-7-	-7-	-7-	-7-	-7-	-7-



Oil Well Test Summary Report

Battery: C.E. LAMUNYON BATT #1

Satellite: Lamunyon 1 Satellite

Well: #23 C. E. Lamunyon

Start Date: 01/01/2004

End Date: 03/04/2004

#23 C. E. Lamun...	10/12/2003	24.00	Single Day	2	4	34	0	88.87	17.00	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	01/22/2004	17.00	Single Day	0	104	890	0	100.00	-7-	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	01/23/2004	24.00	Single Day	0	104	1,031	0	100.00	-7-	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	01/24/2004	24.00	Single Day	0	104	915	0	100.00	-7-	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	01/25/2004	24.00	Single Day	0	38	850	0	100.00	-7-	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	01/26/2004	24.00	Single Day	0	17	807	0	100.00	-7-	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	01/27/2004	24.00	Single Day	0	4	710	0	100.00	-7-	-7-	-7-	-7-	-7-
#23 C. E. Lamun...	02/18/2004	24.00	Single Day	0	4	345	0	100.00	-7-	-7-	-7-	-7-	-7-

Kelly State Well No. 5

OFFSET OPERATORS/INTEREST OWNERS

1. N~~X~~, N~~X~~SE~~X~~, and SW~~X~~SE~~X~~ §16: Apache Corporation is the working interest owner.
2. SE~~X~~SE~~X~~ §16: Kaiser-Francis Oil Company is the working interest owner.
3. NE~~X~~ §17: Yarbrough Oil, LP is the working interest owner.
4. NE~~X~~SE~~X~~ and S~~X~~SE~~X~~ §17: Samedan Oil Corporation is the operator of the Jalmat unit.
5. N~~X~~ §20: Fulfer Oil & Cattle, LLC is the operator of the Jalmat unit.
6. E~~X~~NE~~X~~, NW~~X~~, and S~~X~~SW~~X~~ §21: C.E. Lamunyon Federal Lease: Arch Petroleum Inc. is the operator and sole working interest owner. The Bureau of Land Management is the royalty owner.
7. W~~X~~NE~~X~~, N~~X~~SW~~X~~, and S~~X~~SE~~X~~ §21: Seeton, Elson, and Saltmount Fee Leases: Arch Petroleum Inc. is the operator or working interest owner, but all fee royalty or unleased mineral owners have been notified.
8. N~~X~~SE~~X~~ §21: Travis Fee Lease: Wynn-Crosby Energy Inc. is the operator.



Oil V. II Test Summary Report

Battery: C.E. LAMUNYON BATT #1

Satellite: Lamunyon 1 Satellite

Well: #32 C. E. Lamunyon

Start Date: 01/01/2004

End Date: 03/04/2004

#32 C. E. Lamun...	10/21/2003	24.00	Single Day	2	5	45	0	71.43	22.60	-7-	-7-	-7-	-7-
#32 C. E. Lamun...	01/16/2004	24.00	Single Day	0	148	1,219	0	100.00	-7-	-7-	-7-	-7-	-7-
#32 C. E. Lamun...	01/16/2004	22.00	Single Day	0	40	1,263	0	100.00	-7-	-7-	-7-	-7-	-7-
#32 C. E. Lamun...	01/17/2004	22.00	Single Day	0	24	1,219	0	100.00	-7-	-7-	-7-	-7-	-7-
#32 C. E. Lamun...	01/28/2004	22.00	Single Day	0	24	670	0	100.00	-7-	-7-	-7-	-7-	-7-
#32 C. E. Lamun...	02/09/2004	24.00	Single Day	0	8	951	0	100.00	-7-	-7-	-7-	-7-	-7-
#32 C. E. Lamun...	02/17/2004	24.00	Single Day	1	2	834	0	66.67	834.00	-7-	-7-	-7-	-7-

AUG-13-2004 08:32 AM FULLER ELECTRIC 300 300 2001 1100

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July 30, 2004

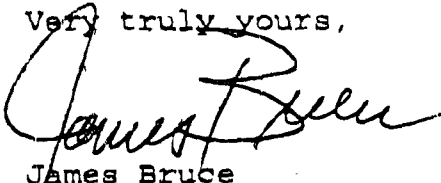
CERTIFIED MAIL - RETURN RECEIPT REQUESTED

To: Offset operators or interest owners

Ladies and gentlemen:

Enclosed is a copy of an application for administrative approval of a non-standard gas spacing unit, filed with the New Mexico Oil Conservation Division by Arch Petroleum Inc., regarding the SW¼ of Section 16, Township 23 South, Range 37 East, N.M.P.M., Lea County, New Mexico. If you object to the application, you must notify the Division, in writing, no later than August 19, 2004 (1220 South St. Francis Drive, Santa Fe, New Mexico 87505). Failure to object will preclude you from contesting this matter at a later date.

Very truly yours,



James Bruce

Attorney for Arch Petroleum Inc.

