

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION  
 - Engineering Bureau -  
 1220 South St. Francis Drive, Santa Fe, NM 87505



**ADMINISTRATIVE APPLICATION CHECKLIST**

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

**Application Acronyms:**

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]  
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]  
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]  
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]  
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]  
 [EOR-Quantified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] TYPE OF APPLICATION - Check Those Which Apply for [A]  
 [A] Location - Spacing Unit - Simultaneous Dedication  
☒ NSL ☐ NSP ☐ SD  
 Check One Only for [B] or [C]  
 [B] Commingling - Storage - Measurement  
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM  
 [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery  
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR  
 [D] Other: Specify \_\_\_\_\_

- [2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply  
 [A] ☐ Working, Royalty or Overriding Royalty Interest Owners  
 [B] ☒ Offset Operators, Leaseholders or Surface Owner  
 [C] ☐ Application is One Which Requires Published Legal Notice  
 [D] ☐ Notification and/or Concurrent Approval by BLM or SLO  
 U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office  
 [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,  
 [F] ☐ Waivers are Attached

COMMON OWNERSHIP

- [3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

- [4] CERTIFICATION: I hereby certify that the information submitted with this application for administrative approval is accurate and complete to the best of my knowledge. I also understand that no action will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Print or Type Name

Signature

KELLAHIN & KELLAHIN  
 Attorneys At Law  
 P.O. Box 2265  
 Santa Fe, NM 87504-2265

Date

6/28/05

**KELLAHIN & KELLAHIN**  
**Attorney at Law**

**W. Thomas Kellahin**  
Recognized Specialist in the Area of  
Natural Resources-oil and gas law-  
New Mexico Board of Legal Specialization

P.O. Box 2265  
Santa Fe, New Mexico 87504  
117 North Guadalupe  
Santa Fe, New Mexico 87501

Telephone 505-982-4285  
Facsimile 505-982-2047  
kellahin@earthlink.net

June 28, 2005

2005 JUN 28 PM 12 34

**HAND DELIVERED**

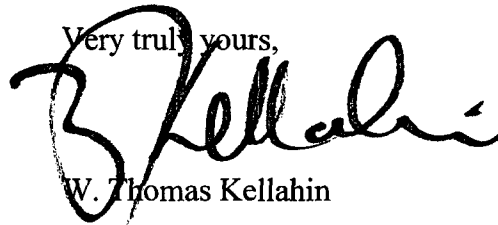
Mr. Mark E. Fesmire, Director  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

Re: Paloma"30" Federal Well No. 2  
Unit J of Section 30, T23S, R34E  
Location: 2430 feet FSL and 2420 feet FEL  
Dedication: S/2 Section 30  
Administrative Application of Chesapeake Operating Company  
for an unorthodox gas well location,  
Bell Lake Mid-Morrow Pool  
Lea County, New Mexico

Dear Mr. Fesmire:

On behalf of Chesapeake Operating Company, please find enclosed our  
referenced administrative application.

Very truly yours,



W. Thomas Kellahin

cc: Chesapeake Operating, Inc.  
Attn: Kathy Blick  
Devon Energy Corporation  
Attn: Sam Sitton

**STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION  
OF CHESAPEAKE OPERATING, INC.  
FOR AN UNORTHODOX GAS WELL LOCATION,  
LEA COUNTY, NEW MEXICO.**

**ADMINISTRATIVE APPLICATION**

CHESAPEAKE OPERATING, INC. ("Chesapeake") by its attorneys, Kellahin & Kellahin, seeks an order authorizing the drilling and production of its Paloma "30" Federal Well No. 2 at an unorthodox gas well location 2430 feet from the South line and 2420 feet from the East line (Unit J) of Section 30, Township 23 South Range 34 East, NMPM to be dedicate to a standard 320-acre gas spacing unit consisting of the S/2 of this section and dedicated to production from the Atoka/Morrow formations in the Bell Lake Mid-Morrow Gas Pool, Lea County, New Mexico

In support of its application Chesapeake states:

1. Chesapeake proposes to drill its Paloma "30" Federal Well No. 2 in such a way as to test the Atoka/Morrow formation. **See Exhibit "A" Division form C-102 and first page of the APD.**

2. An Atoka-Morrow test will be too risky if the wellbore is place at a standard well location. The requested unorthodox well location is the optimal for the Atoka/Morrow formations in order to reduce that risk associated with those formations.

3. The nearest Atoka/Morrow well currently producing in the area is the Paloma 30 Federal Well No. 1 in Unit B of this section. See completion report and form C-102 attached as **Exhibit "B"**

4. This spacing unit is subject to Division Rule 104

### TECHNICAL EVIDENCE

5. Chesapeake, based upon geologic data, believes that this proposed unorthodox gas well location will provide a better opportunity to access potential production in the Atoka/Morrow formations than either of the two standard drilling windows.
6. The Morrow faults cut through both standard-drilling windows. They cause a loss of structural elevation and complexities within the reservoirs. They are not sharply imaged by the seismic thus the 300 feet wide portion identified as the "Fault Risk Area."
7. The Atoka is a proven reservoir in the area and this well must have this additional target to cover the risks allocated with the costs of drilling. The large fault that cuts the SW/4 of the standard drilling window is not vertical and is in a different position on the two maps. (Exhibit "F" and "G"). It moves east as it gets shallower. It also has a radius of uncertainty.
8. The requested NSL is up dip of the wet well in the SE/4SW/4, away from the faults and 50 feet from the pipeline.
9. The following geological exhibits and maps are submitted in support of this application:
  - i. Exhibit "C" attached-written geological summary
  - ii. Exhibit "D" attached 3-D "Atoka" seismic time structure map
  - iii. Exhibit "E" attached 3-D "Morrow" seismic time structure map
  - iv. Exhibit "F" attached 3-D vertical profile line: North-South
  - v. Exhibit "G" attached 3-D vertical profile line: East-West

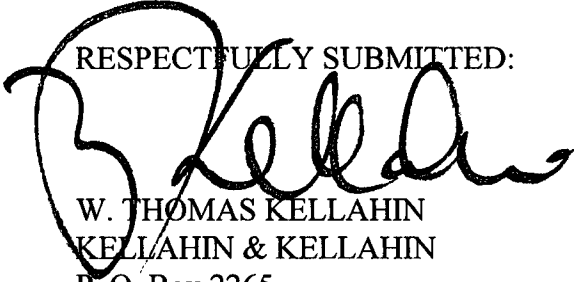
### NOTIFICATION

10. All of Section 30 is subject to a single federal lease (NM 68821, dated July 1, 1987) and as a result of an exploration agreement, **attached as Exhibit "H"**, Devon Energy Production Company, L.P. and Chesapeake Exploration Limited Partnership each has a 50% working interest in both of the two spacing units:
  1. The N/2 is dedicated to the Paloma 30 Federal Well No.1 (API 30-025-36969) located in Unit B; and

2. The subject S/2 is to be dedicated to the Paloma 30 Federal Well No. 2 (API 30-025-pending) located in Unit J.
11. Chesapeake is the operator for the N/2 of Section 30 and intends for this subject well to be located so that it encroaches towards both the N/2 and the SW/4 of this section.
12. In accordance with the Division's notice requirements, a copy of this application has been sent to Devon as the only affected offsetting owners.
13. Devon's consent is attached as Exhibit "I"

WHEREFORE, Chesapeake, as applicant, requests that the Division enter its order approving this requested unorthodox well location.

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN  
KELLAHIN & KELLAHIN  
P. O. Box 2265

Santa Fe, New Mexico 87504

Telephone: (505) 982-4285

Fax: (505) 982-2047

[Kellahin@earthlink.net](mailto:Kellahin@earthlink.net)

## DISTRICT I

1625 N. FRENCH DR., HOBBES, 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

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

Form C-102

Revised JUNE 10, 2003

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

## WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name <b>PALOMA 30 FEDERAL</b>	Well Number <b>2</b>
OGRID No.	Operator Name <b>CHESAPEAKE OPERATING, INC.</b>	Elevation <b>3608'</b>

## Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
J	30	23-S	34-E		2430	SOUTH	2420	EAST	LEA

## 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.						

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

LOT 1 38.30 AC	<p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=464709.6 N X=755099.6 E</p> <p>LAT.=32°16'29.66" N LONG.=103°30'28.65" W</p>	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p>Signature _____</p> <p>Printed Name _____</p> <p>Title _____</p> <p>Date _____</p> <p><b>SURVEYOR CERTIFICATION</b></p> <p>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.</p> <p>JUNE 2, 2005</p> <p>Date Surveyed _____ JR</p> <p>Signature &amp; Seal of Professional Surveyor _____</p> <p>05.11.0850</p> <p>Certificate No. GARY KIDSON 12841</p>
LOT 2 38.39 AC		
LOT 3 38.47 AC	<p>3607.2' 3606.7'</p> <p>600'</p> <p>600'</p> <p>3610.8' 3608.2'</p> <p>2420'</p>	
LOT 4 38.56 AC	<p>2430'</p>	
	<p><b>EXHIBIT</b></p> <p><b>A</b></p>	

## DISTRICT I

1625 N. French Dr., Hobbs, NM 88240

## DISTRICT II

811 South First, Artesia, NM 88210

## DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

## DISTRICT IV

2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-102

Revised March 17, 1999

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

## OIL CONSERVATION DIVISION

2040 South Pacheco

Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

## WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-36969		Pool Code 72000	Pool Name Bell Lake Morrow Mid
Property Code 34425	Property Name PALOMA "30" FEDERAL		Well Number 1
OGRID No. 147179	Operator Name CHESAPEAKE OPERATING INC.		Elevation 3582'

## Surface Location

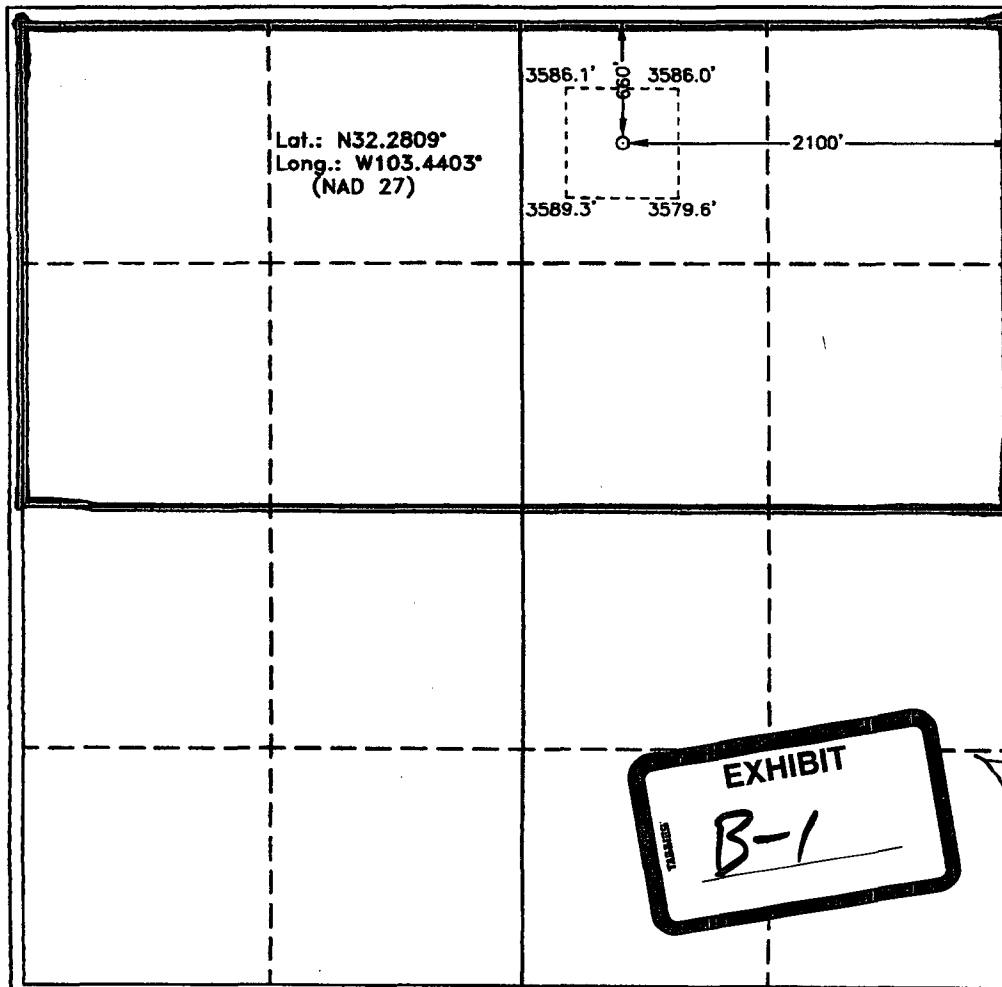
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	30	23 S	34 E		660	NORTH	2100	EAST	LEA

## 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 320	Joint or Infill	Consolidation Code	Order No.
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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 hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

*Brenda Coffman*  
Signature

Brenda Coffman  
Printed Name

Regulatory Analyst  
Title

April 19, 2005  
Date

## SURVEYOR CERTIFICATION

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.

SEPTEMBER 1, 2004

Date Surveyed  
Signature of Gary L. Jones  
Professional Surveyor

7977  
WFO No. 4578

Certification No. Gary L. Jones  
Professional Surveyor

7977  
BASIC SURVEYS

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 & Natural Resources

Form C-104  
Revised June 10, 2003

Oil Conservation Division  
1220 South St. Francis Dr.  
Santa Fe, NM 87505

Submit to Appropriate District Office  
5 Copies

☐ AMENDED REPORT

I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

<sup>1</sup> Operator name and Address <b>Chesapeake Operating, Inc.</b> <b>P. O. box 11050</b> <b>Midland, TX 79702-8050</b>		<sup>2</sup> OGRID Number <b>147179</b>
<sup>4</sup> API Number <b>30 -025-36969</b>		<sup>3</sup> Reason for Filing Code/ Effective Date <b>NW 3/23/05</b>
<sup>5</sup> Pool Name <b>Bell Lake Morrow Mid</b>	<sup>6</sup> Pool Code <b>72000</b>	<sup>9</sup> Well Number <b>001</b>
<sup>7</sup> Property Code <b>34425</b>	<sup>8</sup> Property Name <b>Paloma 30 Federal</b>	

THIS WELL HAS BEEN PLACED IN THE PORE  
DESIGNATED BELOW. IF YOU DO NOT CONCUR  
NOTIFY THIS OFFICE.

II. <sup>10</sup> Surface Location

UL or lot no. <b>B</b>	Section <b>30</b>	Township <b>23S</b>	Range <b>34E</b>	Lot Idn	Feet from the <b>660</b>	North/South Line <b>North</b>	Feet from the <b>2100</b>	East/West line <b>East</b>	County <b>Lea</b>
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<sup>11</sup> Bottom Hole Location

UL or lot no. <b>B</b>	Section <b>30</b>	Township <b>22S</b>	Range <b>34E</b>	Lot Idn	Feet from the <b>660</b>	North/South line <b>North</b>	Feet from the <b>2100</b>	East/West line <b>East</b>	County <b>Lea</b>
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<sup>12</sup> Lse Code <b>F</b>	<sup>13</sup> Producing Method Code <b>F</b>	<sup>14</sup> Gas Connection Date <b>03/17/2005</b>	<sup>15</sup> C-129 Permit Number	<sup>16</sup> C-129 Effective Date	<sup>17</sup> C-129 Expiration Date
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III. Oil and Gas Transporters

<sup>18</sup> Transporter OGRID	<sup>19</sup> Transporter Name and Address	<sup>20</sup> POD	<sup>21</sup> O/G	<sup>22</sup> POD ULSTR Location and Description
<b>036785</b>	<b>Duke Energy Field Services, LP</b>		<b>G</b>	
<b>034053</b>	<b>Plains Marketing, LP</b>		<b>O</b>	

IV. Produced Water

<sup>23</sup> POD	<sup>24</sup> POD ULSTR Location and Description
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V. Well Completion Data

<sup>25</sup> Spud Date <b>12/07/2004</b>	<sup>26</sup> Ready Date <b>03/23/2005</b>	<sup>27</sup> TD <b>13850</b>	<sup>28</sup> PBTD <b>13390</b>	<sup>29</sup> Perforations <b>13181 - 13192</b>	<sup>30</sup> DHC, MC
<sup>31</sup> Hole Size	<sup>32</sup> Casing & Tubing Size	<sup>33</sup> Depth Set	<sup>34</sup> Sacks Cement		
<b>17 1/2</b>	<b>13 3/8"</b>	<b>13,850</b>	<b>635 SX</b>		
<b>12 1/4</b>	<b>9 5/8"</b>	<b>5050</b>	<b>1756 SX</b>		
<b>8 3/4</b>	<b>7"</b>	<b>12254</b>	<b>1300 SX</b>		
<b>6 1/8</b>	<b>4 1/2"</b>	<b>13794</b>	<b>400 SX</b>		

VI. Well Test Data

<sup>35</sup> Date New Oil <b>03/17/2005</b>	<sup>36</sup> Gas Delivery Date <b>03/17/2005</b>	<sup>37</sup> Test Date <b>04/17/2005</b>	<sup>38</sup> Test Length <b>24 HRS.</b>	<sup>39</sup> Tbg. Pressure <b>1700</b>	<sup>40</sup> Csg. Pressure <b>0</b>
<sup>41</sup> Choke Size <b>17/64"</b>	<sup>42</sup> Oil <b>12</b>	<sup>43</sup> Water <b>0</b>	<sup>44</sup> Gas <b>2467</b>	<sup>45</sup> AOF	<sup>46</sup> Test Method <b>Flowing</b>

<sup>47</sup> I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief. Signature: <i>Brenda Coffman</i>		OIL CONSERVATION DIVISION	
Printed name: <b>Brenda Coffman</b>		Approved by: <i>[Signature]</i>	
Title: <b>Regulatory Analyst</b>		Title: <b>PETROLEUM ENGINEER</b>	
E-mail Address: <b>bcoffman@chkenergy.com</b>		Approval Date: <b>APR 27 2005</b>	
Date: <b>04/19/2005</b>	Phone: <b>(432)687-2992</b>		





The submitted maps cover a one square mile cut-out from our proprietary interpretation of 3D seismic data. Two maps are required because we are targeting two reservoir types to justify the risk/reward ratio necessary to drill this location.

Each display has the half-line labeled and the two boxes that contain the orthodox defined areas in the SE/4 and SW/4. The colors and contours are from the seismic time picks for the Mississippian and Atoka reflectors. The red and yellow colors are the structural highs and the purple and white show the lowest structure. A pipeline is shown just south of the half-line. We are required to place our location a distance of more than 150' from this pipeline. Faults are labeled to signify the up and down side.

The Morrow reservoirs have been productive where they trap gas across structural noses. The seismic shows vertical faults at the Mississippian horizon that range from 25-100' of vertical throw. These faults appear to continue through the Morrow and Atoka zones and influence the dips in the Strawn. The faults are not seen as clearly in the Morrow and Atoka zones and the map shows a 300' boundary of uncertainty that is labeled- 'fault risk' because the faults may not be perfectly vertical. We would not knowingly drill in the area that is within these windows of interpreted faulting.

The Atoka and Strawn reservoirs are also dependant upon structure for trapping and water free production. This level is not impacted as much by the vertical faults seen in the Mississippian horizon. The dominate fault at the Atoka level is the lower angle normal fault that is in the east half of the section. The fault has more than 100' of throw at the Atoka level. Because it is not vertical, it moves east 400-500' from its location at the Mississippian level. This fault keeps us from being able to drill within the SW/4 box.

The SE/4 orthodox box is impacted by the vertical faults that cause this area to be off the structural crest. This area does not gain significant structure over the existing well in the SW/4 ( Bell Lake Unit #2, 6660' FSL, 3300' FEL).

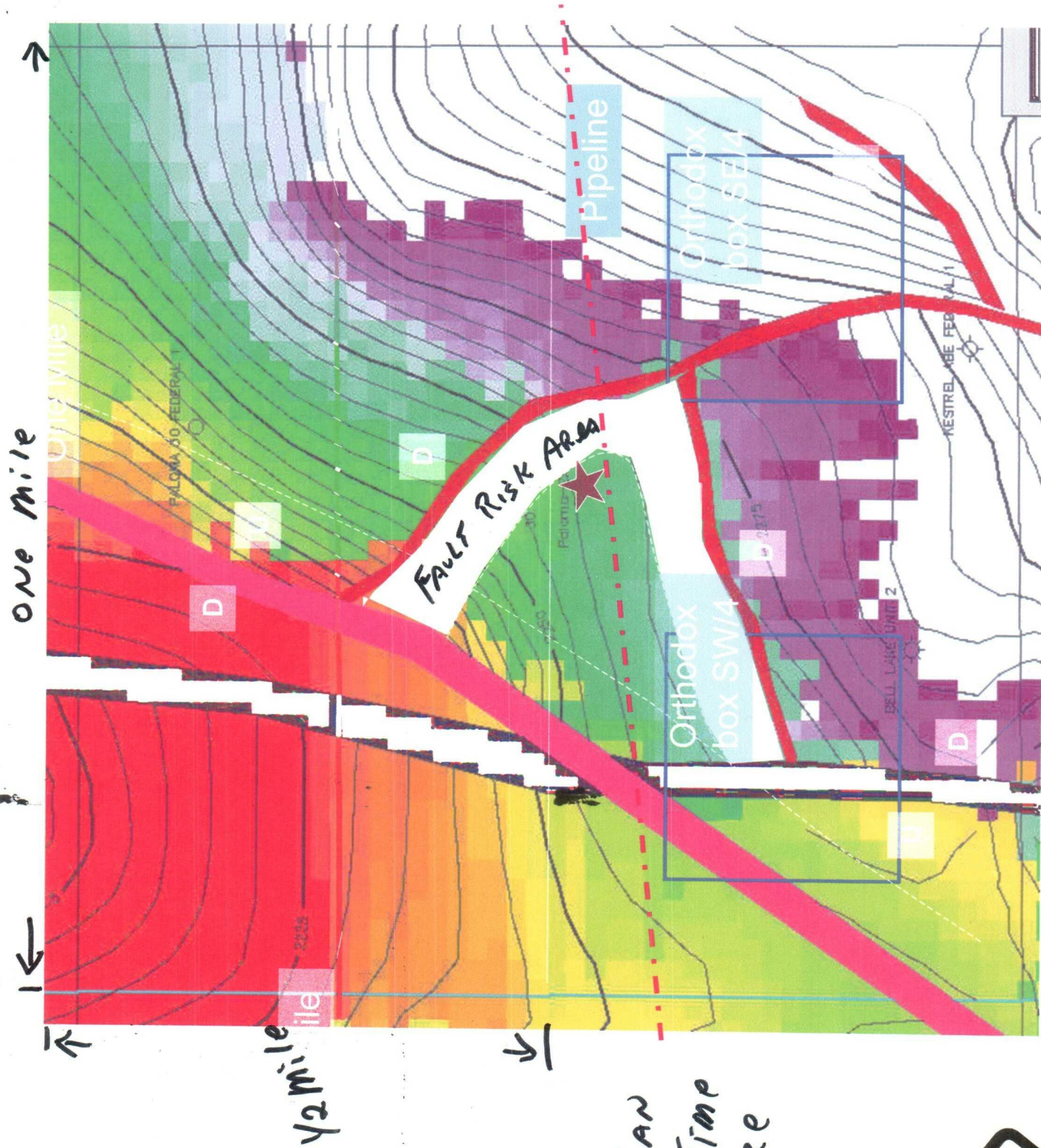
The requested location meets the requirement of being on the crest of the producing structural ridge that plunges from the north to south. The SE/4 orthodox box is off structure and the SW/4 box is impacted by the low angle fault that has 100' of throw at the Atoka level. The pipeline has forced us 150' further north from our acceptable location. A move to the south requires a minimum of 300' to provide the necessary pipeline clearance. This move would put us within the suspected Morrow fault area.



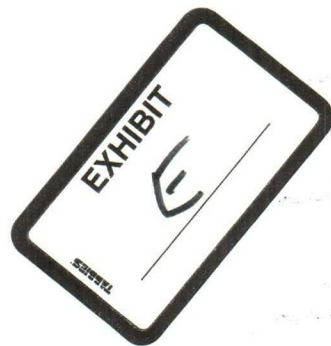
Sec 30  
ATOKA TIME  
STRUCTURE







Sec 30  
Mississippian  
(Morrow) Time  
STRUCTURE







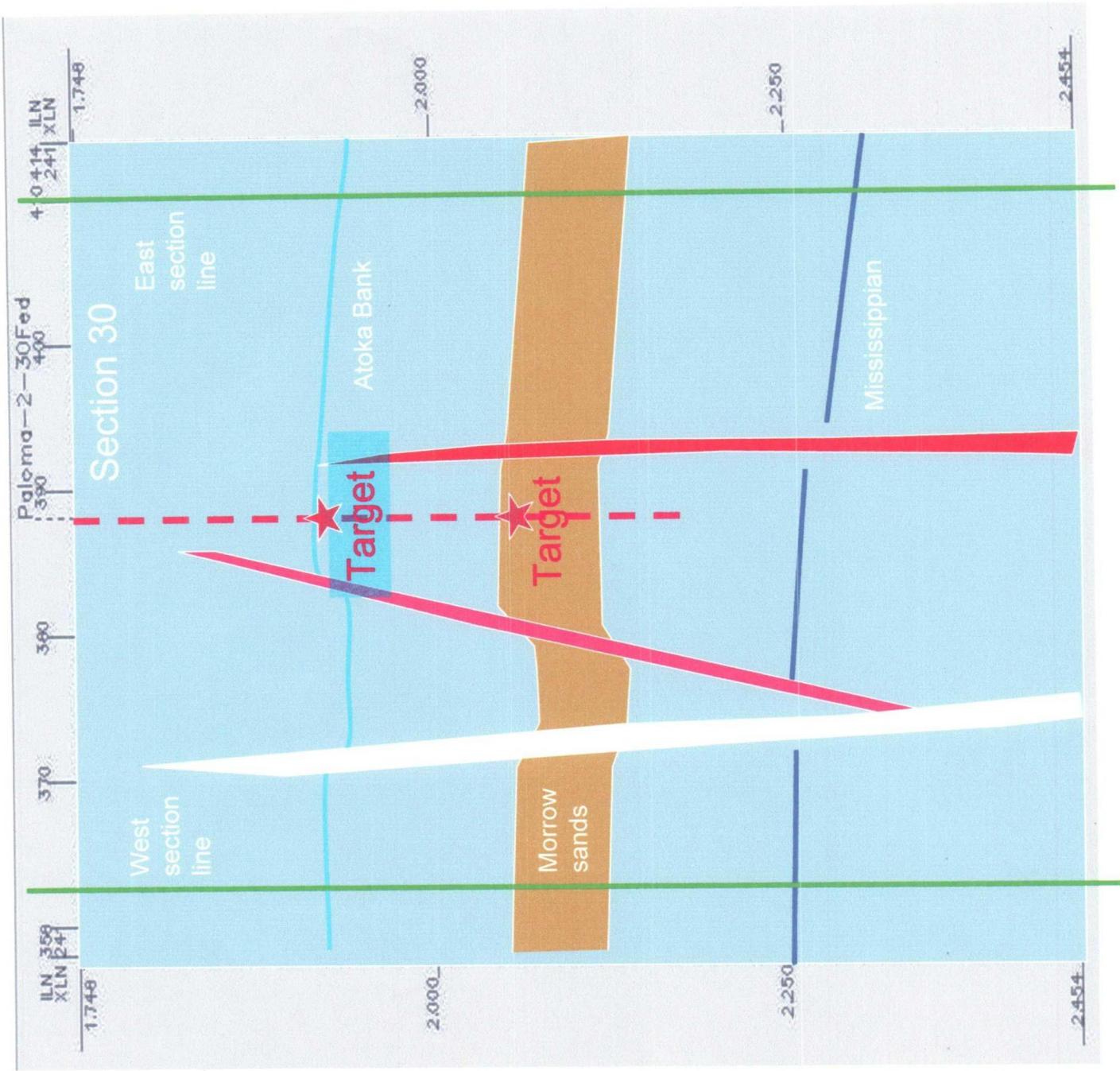


EXHIBIT  
G





Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8280

PHONE: (405) 228-4415  
FAX: (405) 552-8113

April 1, 2003

Chesapeake Exploration Limited Partnership  
P.O. Box 18496  
Oklahoma City, Oklahoma 73154-0496

Re: **Exploration Agreement**  
**Paloma Blanco Prospect**  
**Lea County, New Mexico**

Gentlemen:

Devon Energy Production Company, L.P., 20 N. Broadway, Suite 1500, Oklahoma City, OK 73102, (hereinafter referred to as "Devon") is the owner and holder of certain oil and gas interests located in Township 23 South, Range 34 East, Lea County, New Mexico. Chesapeake Exploration Limited Partnership, P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496 (hereinafter referred to as "Chesapeake") and Devon have agreed to terms by which Chesapeake may earn an undivided interest in said oil and gas interests from Devon (Devon and Chesapeake may each be referred to herein as a "Party", or be collectively referred to herein as the "Parties"). The terms agreed to by the Parties as set forth in this Exploration Agreement ("Agreement") follow:

1. **SUBJECT LEASES:**

Devon represents, but does not warrant, that it is the owner and holder of undivided interests in certain oil and gas leases, term assignments of oil and gas leases and farmout agreements ("Leases") covering lands in Sections 17, 18, 19, 20, 29 and 30, T23S-R34E, Lea County, New Mexico (hereinafter referred to as the "Contract Area"), entitling Devon to an undivided interest in all oil, gas and other minerals produced from and attributable to the Contract Area ("Devon's Interests"), which Leases are more fully described on Exhibit "A" attached hereto and made a part hereof for all purposes.

2. **TEST WELL:**

On or before May 1, 2003, Devon shall commence or cause to be commenced re-entry, sidetracking, and drilling operations on the Bradley "19" Federal Corn #1 Well located 1,980' FNL and 1,650' FWL of Section 19, T23S-R34E, Lea County, New Mexico, hereinafter sometimes referred to as the "Test Well", to determine the presence of hydrocarbons. Once commenced, the Test Well shall be drilled with due diligence to a total vertical depth of 13,800' or a depth sufficient to test the Morrow formation ("Objective Formation"), whichever is the lesser depth ("Objective Depth"). The Parties agree that the spacing unit established for this Test Well will be the N/2 of said Section 19. If during the drilling of the Test Well, Devon shall encounter granite or any other practically impenetrable substance or encounter mechanical difficulties or if the hole is lost for any reason not reasonably within the control of Devon, Devon shall have the right to abandon said Test Well without any further, specific drilling obligations regarding the same hereunder, subject to Article VI.E.1. of the Operating Agreement described below and the further provisions hereof. Should Devon lose the hole or abandon the Test Well prior to reaching the Objective Depth, and the Parties fail to commence operations for the drilling of a Replacement Test Well at or near the same location within ninety (90) days after abandonment operations have been completed, or should Chesapeake elect not



to participate in drilling operations on the Replacement Test Well as herein provided, this agreement shall terminate, and the Parties shall have no rights or obligations hereunder, except those earned or incurred prior to such termination. Operations hereunder shall be conducted in accordance with the provisions of that certain Operating Agreement ("Operating Agreement") attached hereto as Exhibit "D", covering the drilling and spacing unit for the Test Well.

3. TEST WELL COST AND EXPENSE OBLIGATIONS:

The Parties agree that all of the cost, risk and expense associated with re-entering, sidetracking, drilling, logging, and testing the Test Well, or Replacement Test Well, to determine if production casing should be set ("Casing-Point"), shall be borne by the Parties in the following proportions: Chesapeake - 2/3<sup>rd</sup>, Devon - 1/3<sup>rd</sup>. All of the cost, risk and expense of operations beyond Casing-Point shall be borne by the Parties in the following proportions: Chesapeake - 1/2, Devon - 1/2.

4. ASSIGNMENT:

By timely reimbursing Devon for the costs and expenses associated with the Test Well and Replacement Test Well described in Paragraph 3 above, Chesapeake shall earn an assignment from Devon covering an undivided fifty percent (50%) of Devon's interest in the Leases within the Contract Area. Said assignment shall be subject to (i) all of the terms and conditions of each of the Leases, (ii) the royalty interests, overriding royalty interests, and other similar interests burdening the Leases of record on the date hereof, and (iii) all terms and conditions of the term assignments, farmout agreements and all other contracts listed on Exhibit "A" attached hereto; and shall be made on the form attached hereto as Exhibit "B".

5. AREA OF MUTUAL INTEREST

(a) The Parties agree that there shall be established an area of mutual interest ("AMI") covering the following lands located in Township 23 South, Range 34 East, Lea County, New Mexico: All of Sections 17, 18, 19, 20, 29 and 30. The AMI shall remain in force for the term of this agreement, unless sooner terminated by mutual agreement of the parties hereto. Devon's Interests in the Leases in the Contract Area shall be governed by the provisions of this Agreement and not those applicable to the AMI. As between them, subject to the elections provided herein, all ownership within the AMI shall be on the following basis: Devon - an undivided fifty percent (50%), Chesapeake - an undivided fifty percent (50%).

(b) Should either Party acquire during the term of the AMI an oil and gas interest in the AMI (herein called an "Acquired Interest"), such Party (the "Acquiring Party") shall promptly notify the other Party hereto, in writing certified mail return receipt requested, of such Acquired Interest, the consideration paid or to be paid for the Acquired Interest, any other obligations (including, without limitation, drilling obligations) undertaken or to be undertaken as a part of such Acquired Interest and any other terms of such Acquired Interest. Further the written notification shall contain all available title information, and copies of leases, agreements by which the interests may be acquired, and all other pertinent instruments. The written notice shall also describe in detail the cost and expense of such Acquired Interest and any other obligation that may be incurred pursuant thereto. The other Party shall, within twenty (20) days after receipt of such notice, notify the Acquiring Party, in writing, whether or not it wishes to participate in such Acquired Interest; provided, however, that failure of such Party to respond with the time and in the manner set forth above shall be deemed to be an election NOT to participate in such Acquired Interest.

(c) Should a Party elect to participate in the Acquired Interest with the Acquiring Party, such Party shall pay (or to the extent not yet due, agree to pay when due) its proportionate fifty percent (50%) share of the direct costs incurred by the Acquiring Party associated with said Acquired Interest; and agrees to assume its proportionate fifty percent (50%) share of any other obligations which are undertaken as part of such Acquired Interest (such as "drill to earn obligations"). Upon receipt of such payment or other undertaking, such Party shall promptly be assigned as herein provided its proportionate fifty percent (50%) share of the Acquired Interest by the Acquiring Party. The Acquiring Party shall invoice a participating Party for its determined proportionate share of the actual costs of the Acquired Interests if applicable, and such invoice shall be payable with fifteen (15) days of receipt thereof.

(d) Each well drilled within the AMI, if such well is located outside of an existing spacing unit currently covered by an operating agreement, shall be covered by a separate operating agreement (setting forth the interests of such participants, naming the operator as provided herein and describing the applicable well as the initial well and the applicable drilling and spacing unit as the contract area thereunder) in the form of the Operating Agreement (attached hereto as Exhibit "D"), among the parties agreeing to participate therein.

(e) Operatorship within the AMI shall be designated as follows: Devon shall be named operator for all operations conducted within Sections 17, 18, 19, 20 and 29; Chesapeake shall be named operator for all operations conducted within Section 30.

(f) Any assignments to be made pursuant to the terms of this Paragraph 5 shall be made on the general form attached hereto as Exhibit "C".

6. ADDRESSES AND PHONE NUMBERS OF THE PARTIES:

The addresses and phone numbers of the Parties are as follows:

Devon Energy Production Company, L.P.  
20 N. Broadway, Suite 1500  
Oklahoma City, OK 73102  
Phone 405-228-4415  
Fax 405-552-8113  
Attn: Permian Land Department

Chesapeake Exploration Limited Partnership  
P.O. Box 18496  
Oklahoma City, Oklahoma 73154-0496  
Phone 405-879-9285  
Fax 405-879-9535  
Attn: Gary S. Dunlap

7. RIGHTS OF ASSIGNMENT:

The rights of a Party hereunder may be freely assigned in whole or in part. Any assignment or transfer of any interest in and to the Leases and this Agreement by either party hereto shall be made expressly subject to the terms and conditions of this Agreement. Any such assignment or transfer of any interest shall not be binding upon the other Party hereto (including any previous assignees hereunder) until thirty (30) days following their receipt of written notification from the Party assigning said rights.

8. NOTICES:

Any notice hereunder shall be in writing and shall be properly addressed to the other Party at the appropriate address provided in Paragraph 6 of this Agreement. Written notice shall be deemed to have been given at the time actually received by the other Party. Any Party may change its address for the purposes of this Agreement by giving notice of such change to the other Party, which shall not be binding upon the receiving Party until ten (10) days following receipt of said notice.

9. GOOD FAITH AND FURTHER ASSURANCES:

Each Party agrees to use its good faith and best efforts to carry out the purposes and intents of this Agreement and each Party will cure promptly any defects in the creation, execution, delivery and performance of each of such Party's obligations under this Agreement or to correct any omissions in this Agreement or to more fully state the obligations of the Parties as intended to be set out herein, including the prompt execution and delivery of any and all instruments and documents contemplated hereunder.

10. GOVERNING AGREEMENT:

This Agreement supersedes any and all prior agreements between the Parties hereto, whether oral or written, regarding the matters contained herein. This Agreement may not be amended except in a written



instrument executed by each Party hereto. The Parties participated equally in the drafting and negotiation of this Agreement. Should there be a conflict between the terms of this Agreement and the terms of the Operating Agreement while this Agreement is in force and effect, the terms of this Agreement shall prevail.

11. BINDING EFFECT AND COUNTERPART EXECUTION:

The terms, covenants and conditions of this Agreement shall be deemed to be covenants running with the leasehold estates subject to this Agreement and shall extend to, bind and inure to the benefit of the Parties hereto, their heirs, successors and assigns, as applicable. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original for all purposes.

12. NO PARTNERSHIP:

The liabilities of the Parties hereunder shall be several and not joint or collective. It is not the intention of the Parties that this Agreement create any partnership relationship between them, nor that they should be held liable as partners.

13. TERM OF AGREEMENT

This Agreement shall remain in force and effect for a term of three (3) years from this date unless terminated prior to such date by mutual agreement of the Parties.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the day and year first above written.

DEVON ENERGY PRODUCTION COMPANY, L.P.

By: [Signature] *Ren*  
D. D. DeCarlo, Vice President

Agreed to and accepted this 16<sup>th</sup> day of April, 2003.

CHESAPEAKE EXPLORATION LIMITED PARTNERSHIP

By: [Signature] *[Signature]*  
Henry J. Hood  
Senior Vice President - Land and Legal  
Chesapeake Operating, Inc., General Partner

Agreed to and accepted this 18<sup>th</sup> day of April, 2003.

Exploration Agreement, Paloma Blanco Prospect, Lea County, New Mexico

**Thomas Kellahin**

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**From:** "Sitton, Sam" <Sam.Sitton@dvn.com>  
**To:** <kellahin@earthlink.net>  
**Cc:** <kblick@chkenergy.com>  
**Sent:** Wednesday, June 15, 2005 2:09 PM  
**Subject:** Proposed CHK: Paloma 30 Federal # 2; S/2 Sec. 30-23S-34E, Lea Co., NM

Tom-

Kathy Blick has notified me that Chesapeake Exploration Limited Partnership is seeking OCD approval of the subject well at an unorthodox location 2,430' FSL & 2,420' FEL of Sec. 30-23S-34E, Lea County, New Mexico. Please be advised that Devon Energy Production Company, L.P. approves this location and supports Chesapeake's request.

Further, Devon does not view your representation of Chesapeake in seeking OCD approval of this unorthodox location as a conflict of interest, since Devon is not objecting to the proposed location and is a contractual partner with Chesapeake in developing the Paloma Blanco Prospect with Chesapeake pursuant to an existing Exploration Agreement.

If you have any questions or require anything further from Devon as to this matter, please call.

Sam C. Sitton

District Land Supervisor - Permian

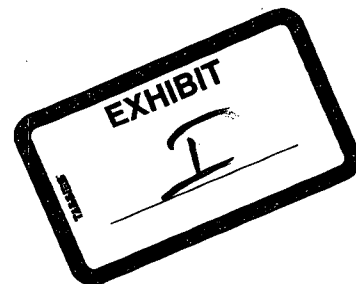
Devon Energy Corporation

20 N. Broadway

Oklahoma City, Oklahoma 73102

Tel. (405) 228-8850

Fax. (405) 552-8113



6/16/2005