



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

July 12, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Westerly Exploration, Inc.
c/o **Walsh Engineering & Production Corp.**
7415 East Main
Farmington, New Mexico 87402

Attention: Paul C. Thompson

paul@walsheng.net

Administrative Order NSL-5423

Dear Mr. Thompson:

Reference is made to the following: (i) your initial application filed on behalf of the operator, Westerly Exploration, Inc., and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on June 15, 2006 (***administrative application reference No. pTDS0-616731470***); (ii) Mr. Michael E. Stogner's, Engineer with the Division in Santa Fe, e-mail correspondence with Mr. John Thompson on June 27, 2006; (iii) Ms. Kay Maddox's letter dated July 1, 2006 with the necessary information to support your application; and (iv) the Division's records in Aztec and Santa Fe: all concerning Westerly Exploration, Inc.'s request to complete its existing Regina Ranch Federal "32" Well No. 1 (**API No. 30-043-20989**) into the Undesignated South Blanco-Pictured Cliffs Pool (**72439**) at an unorthodox gas well location 435 feet from the South line and 990 feet from the West line (Unit M) of Section 32, Township 23 North, Range 1 West, NMPM, Sandoval County, New Mexico. The SW/4 of Section 32 is to be dedicated to this well in order to form a standard 160-acre gas spacing and proration unit for the South Blanco-Pictured Cliffs Pool.

Your application for Westerly Exploration, Inc. has been duly filed under the provisions of: (i) Division Rule 104.F; (ii) Division Rule 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005]; (iii) Division Rule 605; and (iv) the "*Special Rules and Regulations for the South Blanco-Pictured Cliffs Pool*", as promulgated by Division Order No. R-10987, issued in Case No. 11705 on May 7, 1998.

From the Division's records and your application, the Division understands that Westerly Exploration, Inc. initially drilled this well in December, 2005 to a total depth of 8,693 feet as a wildcat Entrada oil test (**WC 23NIW34 – pool code No. 97399**) an a standard oil well location within a standard 40-acre oil spacing and proration unit comprising the SW/4 SW/4 (Unit M) of Section 32. After determining that the Entrada and several other zones of interest were "uneconomical," Westerly Exploration, Inc. now intends to complete this well in the Pictured Cliffs formation.

Westerly Exploration, Inc. c/o Walsh Engineering & Production Corp.
Division Administrative Order NSL-5423

June 12, 2006

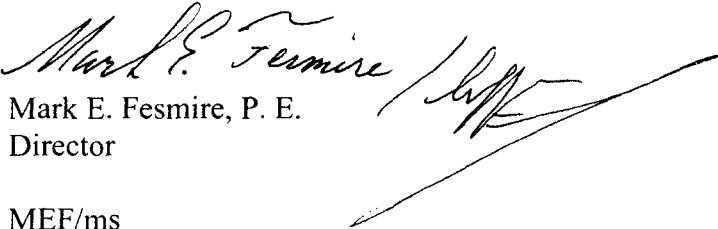
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By the authority granted me under the provisions of Division Rules 104.F (2) and 605.B (2) (b) and the applicable provisions of the special pool rules governing the South Blanco-Pictured Cliffs Pool the above-described unorthodox Pictured Cliffs gas well location for Westerly Exploration, Inc.'s Regina Ranch Federal "32" Well No. 1 is hereby approved.

PLEASE NOTE HOWEVER THAT IN THE FUTURE, Westerly Exploration, Inc., as a prudent operator, should take all necessary steps to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant 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,


Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management – Farmington
Ms. Kay Maddox, Regulatory Agent (*kay.Maddox@yahoo.com*)
Mr. John Thompson, Walsh Engineering and Production Corp. (*john@walsheng.net*)
