

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

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Cabinet Secretary
Reese Fullerton
Deputy Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



July 18, 2008
Administrative Order NSL-5878

Four Star Oil & Gas Company
Attention: Mr. Arthur R. Boehm, Jr.
11111 South Wilcrest
Houston, TX 77099

Dear Mr. Boehm:

Four Star NSL Application: Navajo AA Well No. 3

API No. 30-045-34038
965' FWL & 1740' FSL, Unit L, (Surface)
2275' FWL & 577' FSL, Unit N, (Bottom Hole)
Section 19, T-27 North, R-11 West, NMPM,
San Juan County, New Mexico

Reference is made to the following:

- (a) Four Star Oil & Gas Company ("Four Star") application for a non-standard well location (***administrative application reference No. pKVR0817230680***) for the Navajo AA Well No. 3 that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on June 19, 2008; and
- (b) the Division's records pertinent to Four Star's request.

Four Star requests approval of a Non-Standard bottom hole location for the above referenced unorthodox Dakota gas well location within Section 19 and requests to produce Dakota Gas from the well within a 320 acre, more or less, GPU in the Basin Dakota Gas Pool (**71599**) consisting of the S/2 of Section 19. The Basin-Dakota Gas Pool is currently governed by special pool rules established by Division Order No. R-10987, as amended, which allow 4 wells per spacing unit and a require 660 feet setback from the outer boundary of the gas proration unit.



This subject well was originally permitted by Chevron Midcontinent, L.P. as a vertical well. Later Chevron filed an amended C-102 requesting approval for a directional well with a bottomhole location of 660' FSL & 2255' FWL. Chevron Midcontinent, L.P. then requested the Operator be changed to Four Star OGRID (131994). Four Star reported spudding the well on March 23, 2008. During the drilling of the directional leg of the well there were miscommunications between Four Star and their directional contractors. This confusion resulted in the well being drilled to a non-standard location. Before the mistake was discovered Four Star frac'd and perforated the Dakota formation.

Four Star's application stated that the well was intended to be terminated at a standard location, but the post drill survey showed the well to be non-standard at its total measured depth.

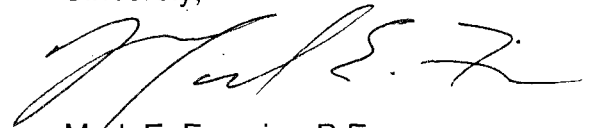
This bottomhole location is un-orthodox because it is located closer than 660 feet from the southern boundary of the S/2 of Section 19 GPU. The application states the affected spacing unit to the south in Section 30 is operated by ConocoPhillips in the E/2 of Section 30 and XTO Energy Inc. in the W/2 of Section 30 and that all working interest owners within that spacing unit have been notified.

Division Rule 104F and these Special Pool Rules allow the Division director to grant location exceptions in order to prevent waste and protect correlative rights. Your application on behalf of Four Star has been duly filed and notice has been provided as required under the provisions of Division Rules 104.F and 1210.A. The above-described non-standard unorthodox bottom hole Dakota gas well location within the Basin-Dakota Prorated Gas Pool is hereby approved.

This approval is subject to your being in compliance with all other applicable Division rules, including, but not limited to Division Rule 40.

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

Sincerely,



Mark E. Fesmire, P.E.
Division Director

MEF/tw

cc: New Mexico Oil Conservation Division - Aztec
Bureau of Land Management-Farmington