

New Mexico Energy, Minerals and Natural Resources Department

Bill Richardson
Governor

Joanna Prukop
Cabinet Secretary

Mark Fesmire
Division Director
Oil Conservation Division



August 19, 2009

Nika Energy Operating, LLC
Attn: Ms. Marcia Stewart
P.O. Box 2677
Durango, CO 81302

Administrative Order NSL-6071

**Re: SG Interests I, Ltd.
Federal 21-7-25 Well No. 2
API No. 30-043-21072
725 feet FNL and 2315 feet FWL
Unit C, Section 25-21N-7W
Sandoval County, New Mexico**

Dear Ms. Stewart:

Reference is made to the following:

(a) your application (**administrative application reference No. pTGW09-21054515**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on July 29, 2009, on behalf of SG Interests I, Ltd (SG) [OGRID 20572], and

(b) the Division's records pertinent to this request.

SG has requested to drill the above-referenced well at an unorthodox well location described above in the caption of this letter. The W/2 of Section 25 will be dedicated to this well in order to form a standard 320-acre gas spacing unit in the Basin Fruitland Coal Gas Pool (71629). Spacing in this pool is governed by the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, as amended by Order No. R-8768-F, effective July 17, 2003, which provide generally for 320-acre units with wells to be located at least 660 feet from any unit boundary. This location is less than 660 feet from the eastern unit boundary.

Your application has been duly filed under the provisions of Division Rules 15.13 and 4.12.A(2).

It is our understanding that you are seeking this location for topographic reasons.



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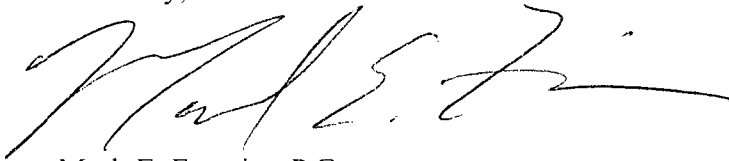
It is also understood that you have given due notice of this application to all operators or owners who are "affected persons," as defined in Rule 4.12.A(2), in all adjoining units towards which the proposed location encroaches.

Pursuant to the authority conferred by Division Rule 15.13.B, the above-described unorthodox location 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 5.9.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', with a stylized flourish at the end.

Mark E. Fesmire, P.E.
Director

MEF/db

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