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December 21, 2012

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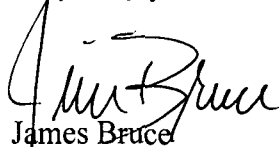
Case 14947

Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Florene:

Enclosed for filing, on behalf of Chi Energy, Inc., is an application for compulsory pooling, *etc.*, together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the January 24, 2013 Examiner hearing. Thank you.

Very truly yours,


James Bruce

Attorney for Chi Energy, Inc.

Parties Being Pooled

International Oil & Gas Corp.
address unknown

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

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APPLICATION OF CHI ENERGY, INC. FOR
A NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

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Case No. 14947

APPLICATION

Chi Energy, Inc. applies for an order (i) approving a 160 acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the $W\frac{1}{2}W\frac{1}{2}$ of Section 25, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, and (ii) pooling all mineral interests in the Bone Spring formation underlying the non-standard unit, and in support thereof, states:

1. Applicant is an interest owner in the $W\frac{1}{2}W\frac{1}{2}$ of Section 25, and has the right to drill a well thereon.
2. Applicant proposes to drill its Peacekeeper 25 State Com. Well No. 3, to a depth sufficient to test the Bone Spring formation, and seeks to dedicate the $W\frac{1}{2}W\frac{1}{2}$ of Section 25 to the well to form a non-standard 160 acre oil spacing and proration unit (project area) for any formations and/or pools developed on 40 acre spacing within that vertical extent. The well is a horizontal well, with a surface location in the $SW\frac{1}{4}SW\frac{1}{4}$, and a terminus in the $NW\frac{1}{4}NW\frac{1}{4}$, of Section 25.
3. Applicant has in good faith sought to obtain the voluntary joinder of all other mineral interest owners in the $W\frac{1}{2}W\frac{1}{2}$ of Section 25 for the purposes set forth herein.
4. Although applicant attempted to obtain voluntary agreements from all mineral interest owners to participate in the drilling of the well or to otherwise commit their interests to the well, certain interest owners have failed or refused to join in dedicating their interests.

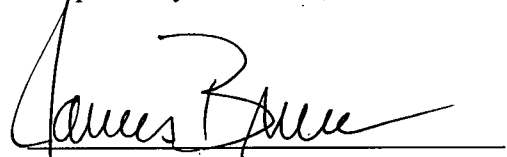
Therefore, applicant seeks an order pooling all mineral interest owners in the W½W½ of Section 25, pursuant to NMSA 1978 §§70-2-17, 18.

5. The approval of the non-standard unit and the pooling of all mineral interests underlying the W½W½ of Section 25 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, applicant requests that, after notice and hearing, the Division enter its order:

- A. Approving a non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the W½W½ of Section 25;
- B. Pooling all mineral interests in the Bone Spring formation underlying the W½W½ of Section 25;
- C. Designating Chi Operating, Inc. as operator of the well;
- D. Considering the cost of drilling and completing the well, and allocating the cost among the well's working interest owners;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Chi Energy, Inc.

PROPOSED ADVERTISEMENT

Case No. 14947 :

Application of Chi Energy, Inc. for a non-standard oil spacing and proration unit and compulsory pooling, Eddy County, New Mexico. Chi Energy, Inc. seeks an order approving a 160-acre non-standard oil spacing and proration unit (project area) in the Bone Spring formation comprised of the W/2W/2 of Section 25, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks the pooling of all mineral interests in the Bone Spring formation underlying the non-standard unit (project area) for any pools or formations developed on 40 acre spacing within that vertical extent. The unit is to be dedicated to the Peacekeeper 25 State Com. Well No. 3, a horizontal well with a surface location in the SW/4SW/4, and a terminus in the NW/4NW/4, of Section 25. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, actual operating costs and charges for supervision, designation of Chi Operating, Inc. as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The unit is located approximately 18-1/2 mile east of Lakewood, New Mexico.

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