

New Mexico Energy, Minerals and Natural Resources Department

Susana Martínez
Governor

John H. Bemis
Cabinet Secretary-Designate

Brett F. Woods, Ph.D.
Deputy Cabinet Secretary

Daniel Sanchez
Acting Division Director
Oil Conservation Division



April 5, 2011

Ms. Ocean Munds-Dry
Holland & Hart LLP
P.O. Box 2208
Santa Fe, NM 87504

Administrative Order NSI-6357

Re: Chesapeake Operating, Inc.
PLU Big Sinks 25 Federal Well No. 1H
API No. 30-015 - **39018**
100 feet FSL and 2240 feet FEL
Unit O, Section 25-24S-30E
Eddy County, New Mexico

Dear Ms. Munds-Dry:

Reference is made to the following:

(a) your application (administrative application reference No. pTGW11-06756049) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico, on behalf of Chesapeake Operating, Inc. [OGRID 147179] (Chesapeake), on March 7, 2011, and

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

Chesapeake has requested to drill the above-referenced well as a horizontal well in the Bone Spring formation, at a location that will be unorthodox under Division Rule 16.14.B(2). The proposed surface location, point of penetration and terminus of the well are as follows:

Surface Location: 100 feet from the South line and 2240 feet from the East line
(Unit O) of Section 25, Township 24 South, Range 30 East, NMPM,
Eddy County, New Mexico

Oil Conservation Division
1220 South St. Francis Drive • Santa Fe, New Mexico 87505
Phone (505) 476-3440 • Fax (505) 476-3462 • www.emnrd.state.nm.us/OCD

A handwritten signature in dark ink, appearing to be "Daniel Sanchez", is written over the bottom right portion of the letterhead.

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Point of Penetration: same as surface location

Terminus 350 feet from the North line and 2240 feet from the East line
(Unit B) of said section

The W/2 E/2 of Section 25 will be dedicated to the proposed well to form a project area comprising four standard, 40-acre wildcat Bone Spring spacing units. Spacing is governed by statewide Rule 15.9, which provides for 40-acre units, with wells located at least 330 feet from a unit outer boundary. This location is unorthodox because a portion of the producing interval will be less than 330 feet from the southern boundary of the project area, and therefore outside the producing area.

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 engineering reasons, in order to maximize production from the target formation within the producing area.

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,



J. Daniel Sanchez
Acting Director

JDS/db

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