

12/27/06 DATE IN	SUSPENSE	D. Brooks ENGINEER	1/5/07 LOGGED IN	NSL TYPE	APP NO. pTDSO700534159
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
- Engineering Bureau -
1220 South St. Francis Drive, Santa Fe, NM 87505



Capataz Operating
LEM #1
4952-A

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
 [A] Location - Spacing Unit - Simultaneous Dedication
☒ NSL ☐ NSP ☐ SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

- [D] Other: Specify _____

- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or Does Not Apply
 [A] ☐ Working, Royalty or Overriding Royalty Interest Owners
 [B] ☐ Offset Operators, Leaseholders or Surface Owner
 [C] ☐ Application is One Which Requires Published Legal Notice
 [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] ☐ Waivers are Attached

- [3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Print or Type Name

Signature

Title

Date

e-mail Address

CAPATAZ OPERATING, INC.

P.O. Drawer 10549

Midland, Texas 79702

(432)620-8820 / fax (432)620-8842/ capataz1@sbcglobal.net

12/28/06

Mr. David Brooks
New Mexico Energy, Minerals & Natural Resources Department
Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505

2007 JAN 8 PM 1 58

Re: Capataz Operating, Inc.
L&M #1 – NSL 4952
Lea County, New Mexico

Dear Mr. Brooks;

Thank you for your telephone call today. The following information is provided in a effort to clarify the history and status of the captioned well and our request to add Blinebry interval perforations from 6050' to 6219' to the captioned NSL.

In 2001 Capataz drilled and completed our #2 Redtag located in unit "K" of Section 2, T20S-R38E, Lea County, New Mexico. This well came in producing sufficient gas volumes to necessitate our requesting a 160 acre Blinebry gas unit for the well. With Administrative Order NSL-4630-A issued April 5 2002, the NMOCD approved the unorthodox location for the Capataz Redtag #2 and dedicated the entire SW/4 of Section 2, T20S,R38E as the standard 160 acre gas spacing and proration unit for said well. By virtue of a Farmout Agreement with Phillips Petroleum Company, our working interest group earned an assignment of 100% of the State of New Mexico Lease No. B-9652, insofar as the lease covers the SW/4 of Section 2, from the surface to 7890 feet below the surface. Our records reflect that we notified the offsetting mineral and leasehold owners in the SW/4 of Section 2 of our request for this 160 acre spacing unit. We understand that the NMOCD received no objections to our request. In November of 2003 Capataz re-entered the captioned well. Previously designated as the Exxon DK State #1 the well had been drilled as a Devonian test and plugged and abandoned by Exxon. Exxon directionally drilled the well to reach a bottom hole location under several large earthen effluent water pits operated by the City of Hobbs sewer and water department. Capataz successfully re-entered the Exxon well and renamed it the L&M #1. Capataz ran and cemented 5 1/2" casing to 7403' and completed the well as a Tubb, House field producer through perforations from 6821'-6871'. In May of 2005 Capataz commenced well work to improve the L&M #1 wells economics by perforating and stimulating the Blinebry pay from 6050' to 6192'. This rework was agreed to by all of the Capataz working interest group. The workover resulted in improved production and it was determined that the Blinebry perforations should be added to the existing NSL #4952 to ensure compliance with NMOCD rules. The lowest Blinebry perforation at 6219' is 652' above the top Tubb perforation and at a calculated surface location of 1368.34'FSL and 965.83' FWL Section 2, T20S-R38E, Lea County. Capataz and it's working interest group owned the L&M well and all of the leasehold in the SW/4 of Section 2 and we did not provide written notice of our application to ourselves. It is our belief that this addition to the existing NSL #4952 is appropriate and we request you grant approval of our request.

Thank you for your assistance.

Sincerely,

CAPATAZ OPERATING, INC.

H. Scott Davis
President

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised August 15, 2000
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies
☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-28287		Pool Code 78760		Pool Name House, Tubb	
Property Code 32978		Property Name L & M			Well Number 1
OGRID No. 3659		Operator Name Capataz Operating, Inc			Elevation 3580

10 Surface Location

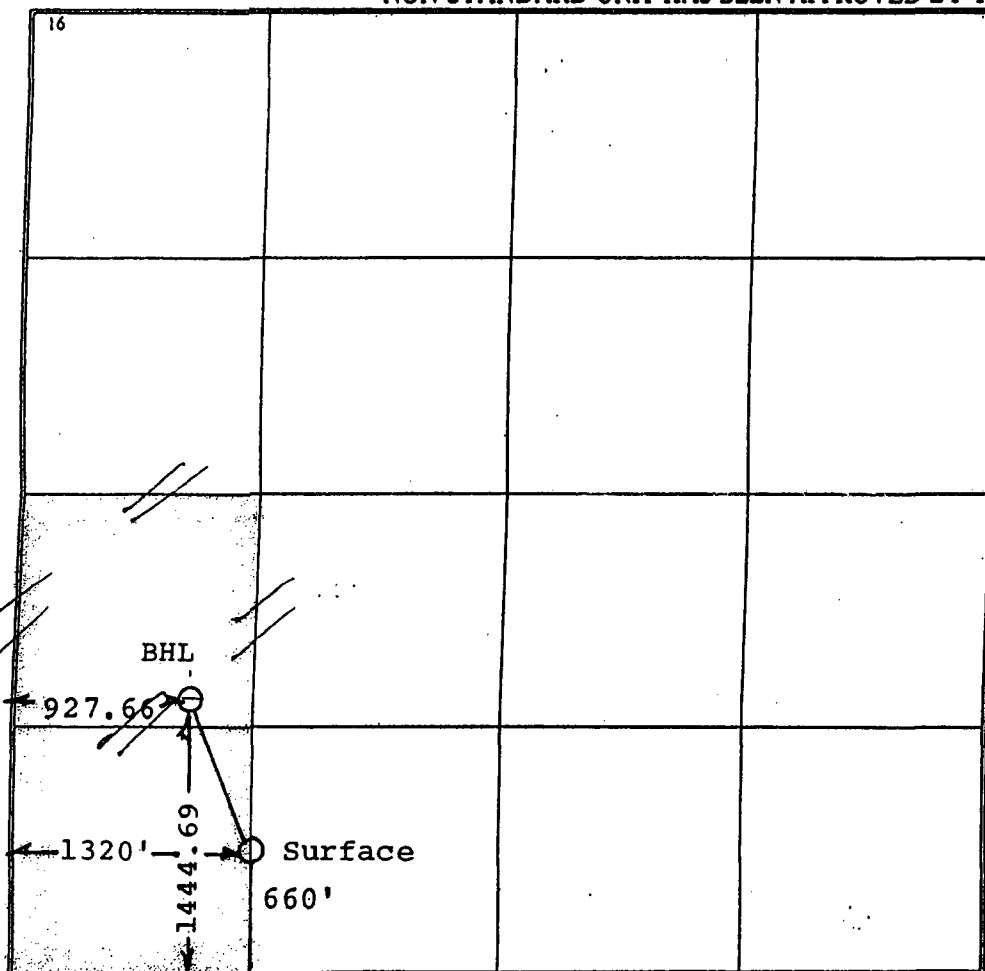
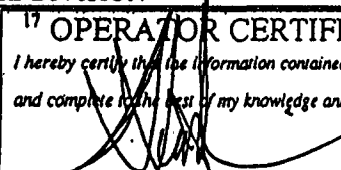
UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M/N	2	20S	38E		660	South	1320	West	Lea

11 Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	2	20S	38E		1444.69	South	927.66	West	Lea

Dedicated Acres A020	Joint or Infill	Consolidation Code	Order No. NSL-4952 (BHL)
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	17 OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.  Signature H Scott Davis Printed Name Agent Title 9/23/03 Date
	18 SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. See Attached Original Exxon Survey. Date of Survey Signature and Seal of Professional Surveyor:
	Certificate Number



APPROXIMATE WEST LINE SECTION 2-20S-38E



Image © 2006 DigitalGlobe
© 2006 Navteq

© 2005 Google

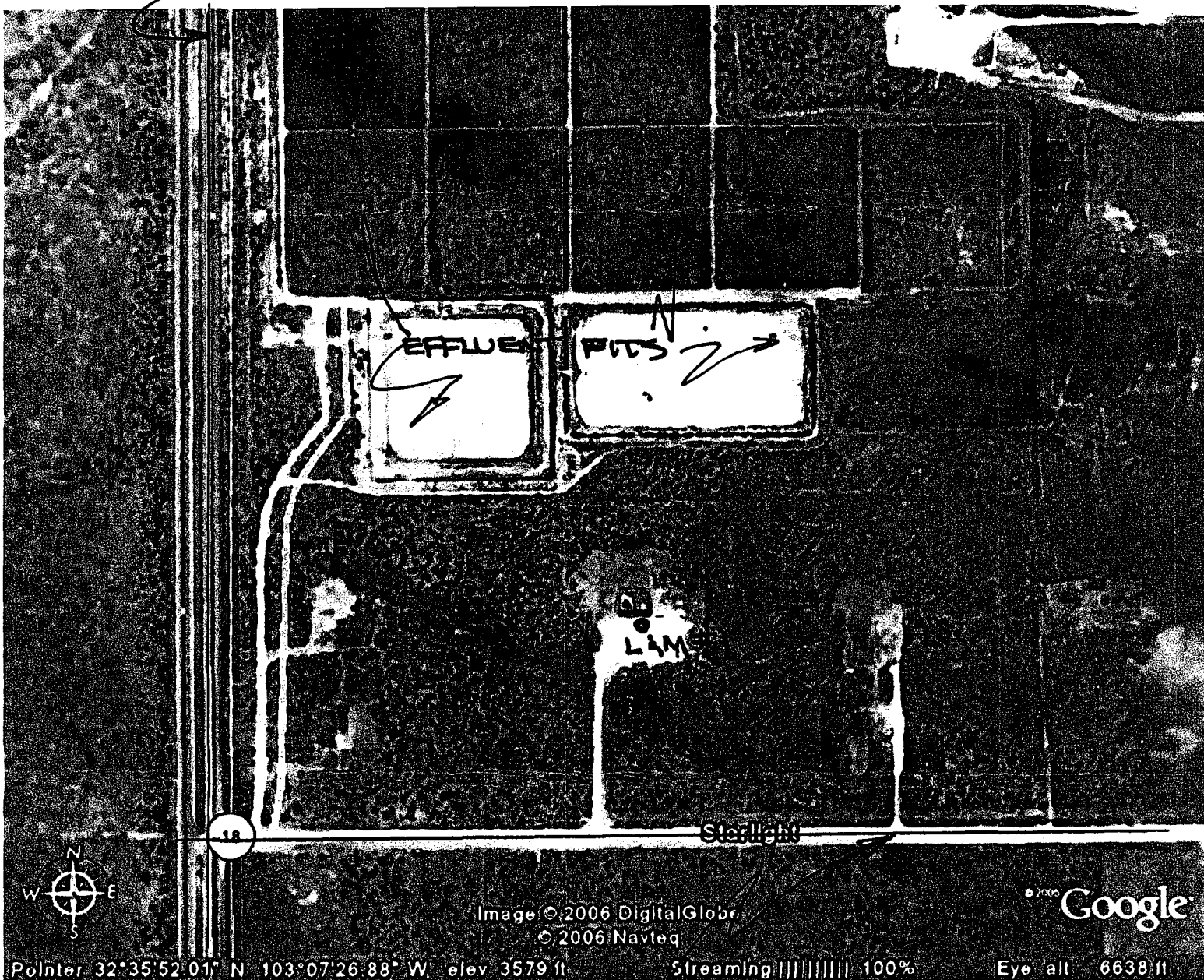
Pointer 32°35'52.01" N 103°07'26.88" W elev 3579 ft Streaming 100% Eye alt 6638 ft

APPROXIMATE SOUTHLINE SEC. 2-20S-38E

CAPATAZ OPERATING, INC.
L&M #1
LEA COUNTY, NEW MEXICO

N

APPROXIMATE WEST LINE SECTION 2-205-38E



APPROXIMATE SOUTHLINE SEC 2-205-38E

CAPATAZ OPERATING, INC.
L'EM #1
LEA COUNTY, NEW MEXICO

Capataz Operating, Inc.
P. O. Drawer 10549
Midland, Texas 79702
(915) 620-8820/fax (915) 620-8842

March 15, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Kaiser-Francis Oil Company
P. O. Box 21468
Tulsa, Oklahoma 74121-1468

Attention: Jim Wakefield

Re: Capataz Operating, Inc.
NMOCD Rule 104 Exception Request
Red Tag No.2
Unit K-T20S-R38E
Lea County, New Mexico

Gentlemen:

Capataz Operating, Inc. permitted and drilled the captioned well as a 7800' Abo test in July, 2001. The well was subsequently completed as an Abo formation producer in October, 2001. After stabilizing production from this interval at an average daily rate of 16.5 BO and 78 MCFG per day, Capataz elected to move up the hole and attempt to establish higher rates of production by perforating and stimulating the Blinbry interval. Accordingly, a retrievable bridge plug was set at 6100' with the expectation that the Blinbry and Abo formations would be subsequently downhole commingled. The Blinbry was perforated from 5950' to 6035' and acidized with 6000 gallons of 20% Nefe, load fluids were swabbed back and the well kicked off flowing natural gas. Capataz has stabilized the Blinbry gas production at a daily rate of 1.2 MMCFD.

Capataz Operating, Inc. has requested approval from the New Mexico Oil Conservation Division for an unorthodox gas well location for its Red Tag No. 2 well located 2410 feet from the south line and 2310 feet from the west line of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico. The well is a gas well in the Blinbry formation, and the Southwest Quarter of Section 2 is dedicated to the well.

If Kaiser-Francis objects to the location, you must notify the Oil Conservation Division in writing within 20 days from the date of this letter. The Division's address is 1220 South St. Francis Drive, Santa Fe, New Mexico, 87505. Failure to object will preclude Kaiser-Francis from contesting this matter at a later date.

Very truly yours,

CAPATAZ OPERATING, INC.

H. Scott Davis

CapatazIntroKaiserFrancis

U.S. Postal Service
CERTIFIED MAIL RECEIPT
Domestic Mail Only, for insurance to \$500 (if insured)

7001 0320 0004 3739 7635

3. Article Addressed to:
Kaiser-Francis Oil Co
PO Box 21468
Tulsa, OK 74121-1468
Attn: Jim Wakefield

4b. Service Type
☐ Registered ☒ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery: MAR 20 2002

8. Addressee's Address (Only if different from the address on the label)
Kaiser-Francis Oil Co
PO Box 21468
Tulsa, OK 74121-1468

9. Signature: *[Signature]*
X

PS Form 3871, December 1994

10255-97-8-0175 Domestic Return Receipt

Thank you for using Return Receipt Service.

U.S. Postal Service
CERTIFIED MAIL RECEIPT
Domestic Mail Only, for insurance to \$500 (if insured)

OFFICIAL U.S. MAIL

Postage \$
Certified Fee \$
Return Receipt Fee (Endorsement Required) \$
Restricted Delivery Fee (Endorsement Required) \$
Total Postage & Fees \$

Sent To
Kaiser-Francis/Jim Wakefield
Street, Apt. No.
or PO Box No. PO Box 21468
City, State, Zip+4 Tulsa, OK 74121-1468

7001 0320 0004 3739 7635

3-18-02
Capataz Operating, Inc.
P. O. Drawer 10549
Midland, Texas 79702
(915) 620-8820/fax (915) 620-8842

March 15, 2002

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Phillips Petroleum Company
4001 Penbrook
Odessa, Texas 79762

Attention: Linda H. Hicks
Land Specialist

Re: Capataz Operating, Inc.
NMOC Rule 104 Exception Request
Red Tag No.2
Unit K-T20S-R38E
Lea County, New Mexico

Gentlemen:

Capataz Operating, Inc. permitted and drilled the captioned well as a 7800' Abo test in July, 2001. The well was subsequently completed as an Abo formation producer in October, 2001. After stabilizing production from this interval at an average daily rate of 16.5 BO and 78 MCFG per day, Capataz elected to move up the hole and attempt to establish higher rates of production by perforating and stimulating the Blinbry interval. Accordingly, a retrievable bridge plug was set at 6100' with the expectation that the Blinbry and Abo formations would be subsequently downhole commingled. The Blinbry was perforated from 5950' to 6035' and acidized with 6000 gallons of 20% Nefe, load fluids were swabbed back and the well kicked off flowing natural gas. Capataz has stabilized the Blinbry gas production at a daily rate of 1.2 MMCFD.

Capataz Operating, Inc. has requested approval from the New Mexico Oil Conservation Division for an unorthodox gas well location for its Red Tag No. 2 well located 2410 feet from the south line and 2310 feet from the west line of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico. The well is a gas well in the Blinbry formation, and the Southwest Quarter of Section 2 is dedicated to the well.

If Phillips Petroleum objects to the location, you must notify the Oil Conservation Division in writing within 20 days from the date of this letter. The Division's address is 1220 South St. Francis Drive, Santa Fe, New Mexico, 87505. Failure to object will preclude Phillips from contesting this matter at a later date.

Very truly yours,

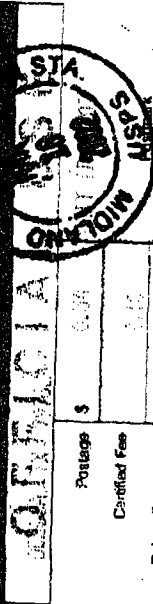
CAPATAZ OPERATING, INC.

H. Scott Davis

Capataz to Phillips

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only. No Insurance Coverage Provided)

7001 0320 0004 3739 7628



Postage	\$ 0.00
Certified Fee	\$ 0.00
Return Receipt Fee (Endorsement Required)	\$ 0.00
Restricted Delivery Fee (Endorsement Required)	\$ 0.00
Total Postage & Fees	\$ 0.00

Sent to
Phillips Petroleum Co/Linda Hicks
4001 Penbrook
 Street Apt. No.
 or PO Box No.
 City State ZIP+4
Odessa, TX 79762

SENDER:

- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- The Return Receipt Requester on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

3. Article Addressed to: **7001 0320 0004 3739 7628**

Phillips Petroleum Co
4001 Penbrook
Odessa, TX 79762

Attn: Linda Hicks
Land Specialist

4a. Service Type
☐ Registered ☒ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery **3.21.02**

8. Addressee's Address (Only if requested and fee is paid)

5. Received By: (Print Name)
Linda Hicks

6. Signature: (Address of Agent)
Linda Hicks

I also wish to receive the following services (for an extra fee):

- ☐ Addressee's Address
- ☐ Restricted Delivery

Consult postmaster for fee.

Thank you for using Return Receipt Service.

CAPATAZ OPERATING, INC.
P.O. 10549
Midland, Texas 79702
(432)820-8820 (O)
(432)820-8842 (F)
capataz1@abccglobal.net (e-mail)
FACSIMILE TRANSMITTAL

Date: 12/19/06 Time: 10:33 CST No. of pages (including form) _____

To: DAVID BROOKS Fax 505-476-3462

Attention: TERESA Phone No. _____

Comments: _____

AS PER OUR DISCUSSION,

SCOTT DAVIS

File

CAPATAZ OPERATING, INC.

P.O. Drawer 10549

Midland, Texas 79702

(432)620-8820 / fax (432)620-8842 / capataz1@sbcglobal.net

10/17/06

Mr. David Brooks

New Mexico Energy, Minerals & Natural Resources Department

Oil Conservation Division

1220 South St. Francis Drive

Santa Fe, New Mexico 87506

RE: Capataz Operating, Inc.

#1 L&M

API 30-025-28287

Property Code 32978

NSL #4952

Lea County, New Mexico

Dear Mr. Brooks,

On September 19, 2006 I mistakenly forwarded the enclosures to the Hobbs office. Please be so kind as to amend the captioned NSL to reflect the inclusion of the Blinbry perforations shown on the enclosed C-103. The mineral ownership for all of the intervals in this well is the same.

Thank you for your assistance.

Sincerely,

CAPATAZ OPERATING, INC.


H. Scott Davis
President

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brator Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102
Revised August 15, 2000
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-28287	Pool Code 33230	Pool Name House, Blinebry	Well Number 33230
Property Code 32978	Property Name L & M	Well Number 1	
OGRID No. 3659	Operator Name Capataz Operating, Inc	Elevation 3580	

Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M/N	2	20S	38E		660	South	1320	West	Lea

Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	2	20S	38E		1444.69	South	927.66	West	Lea

Dedicated Acres ADP	Joint or Infill	Consolidation Code	Order No. NSL-4952 <BHL>
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p>Signature H Scott Davis</p> <p>Printed Name Agent</p> <p>Date 9/23/03</p>
	<p>SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. See Attached Original Exxon Survey.</p> <p>Date of Survey</p> <p>Signature and Seal of Professional Surveyor:</p> <p>Certificate Number</p>



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

October 23, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Capataz Operating, Inc.
P. O. Drawer 10549
Midland, Texas 79702

Attention: **H. Scott Davis**
capatazhds@aol.com

Administrative Order NSL-4952 (BHL)

Dear Mr. Davis:

Reference is made to the following: (i) your application dated September 5, 2003 (*administrative application reference No. pMES0-328837671*), which was received by the New Mexico Oil Conservation Division ("Division") in Santa Fe on September 29, 2003; (ii) your e-mail message of Friday, October 17, 2003, to Mr. Michael E. Stogner, Engineer with the Division in Santa Fe checking on the status of this application; (iii) your two telephone conversations with Mr. Stogner on Monday, October 20, 2003, and Tuesday, October 21, 2003; and (iv) the Division's records in Santa Fe, including the files in Division Case No. 7926 and on Division Administrative Orders NSL-4630 and NSL-4630-A: all concerning Capataz Operating, Inc.'s ("Capataz") request for a non-standard subsurface oil producing area/bottomhole oil well location in both the Undesignated House-Drinkard (33250) and Undesignated House-Tubb Pools (78760), as defined by Division Rules 111.A (7) and 104.B (1), within a project area [see Division Rule 111.A (9)] comprising a single standard 40-acre oil spacing and proration unit for both pools comprising the NW/4 SW/4 (Unit L) of Section 2, Township 20 South, Range 38 East, NMPM, Lea County, New Mexico.

Your application has been duly filed under the provisions of Division Rules 104.F and 111.C (2).

By Division Order No. R-7332, issued in Case No. 7926 on August 8, 1983, Exxon Corporation was granted authorization to directionally drill its New Mexico "DK" State Well No. 1 (API No. 30-025-28287) from a surface location 660 feet from the South line and 1320 feet from the West line of Section 2 at a standard subsurface oil well location in the McKee Sand formation at an approximate depth of 10,000 feet (MD) within the NW/4 SW/4 (Unit L) of Section 2, being a standard 40-acre oil spacing and proration unit for this interval. It is the Division's understanding that Exxon Corporation commenced drilling its New Mexico "DK" State Well No. 1 on August 22, 1983 and on November 8, 1983 reached total depth of 9,713 feet (MD). This well was subsequently "junked and abandoned" in January, 1984.

Per your application, Capataz, at this time intends to re-enter this well, re-designate it the L&M Well No. 1, and dually complete in both the oil bearing Drinkard and Tubb intervals.

From the information provided, the actual bottom-hole location of this wellbore at a depth of 9,568 feet (MD) is located 1996 feet from the North line and 652 feet from the West line (Unit L) of Section 2. Further, this well's subsurface locations within the:

(a) shallower Undesignated House-Tubb Pool are as follows: (i) the top, at a depth of 6,688 feet (MD) or 6,589 feet (TVD), is approximately 1340 feet from the South line and 980 feet from the West line (Unit L) of Section 2; and (ii) the bottom, at a depth of 6,980 feet (MD) or 6,871 feet (TVD), is approximately 1414 feet from the South line and 943 feet from the West line (Unit L) of Section 2. Pursuant to Division Rule 104.B (1), the entire Tubb "producing interval" [see Division Rule 111.A (8)] within this wellbore is unorthodox; and

(b) deeper Undesignated House-Drinkard Pool: (i) the top, which corresponds to the base of the Tubb interval at a depth of 6,980 feet (MD) or 6,871 feet (TVD), is approximately 1414 feet from the South line and 943 feet from the West line (Unit L) of Section 2; and (ii) the bottom, at a depth of 7,428 feet (MD) or 7,302 feet (TVD), is approximately 1532 feet from the South line and 884 feet from the West line (Unit L) of Section 2. Pursuant to Division Rule 104.B (1), the entire Drinkard "producing interval" within this wellbore is also unorthodox.

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described non-standard Tubb and Drinkard subsurface oil well locations within the NW/4 SW/4 (Unit L) of Section 2 and wellbore path of Capataz's L & M Well No. 1 (New Mexico "DK" State Well No. 1) are hereby approved.

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

Sincerely,



Lori Wrotenbery
Director

LW/mes

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe

REMARKS: That portion of your application concerning the Southwest House-Blinebry Gas Pool (97195) for a second wellbore or infill well within an existing standard 160-acre gas spacing unit comprising the SW/4 of Section 2, which is currently dedicated to Capataz's Redtag Well No. 2 (API No. 30-025-35630), located at an unorthodox gas well location 2410 feet from the South line and 2210 feet from the West line (Unit K) of Section 2 (approved by Division Administrative Order NSL-4630-A, dated April 5, 2002); being an exception to Division Rule 104.D (3), cannot be processed administratively and will require a hearing.

CAPATAZ OPERATING, INC.**P.O. Drawer 10549****Midland, Texas 79702****(432)620-8820 / fax (432)620-8842 / capataz1@abccglobal.net****12/28/06**

**Mr. David Brooks
New Mexico Energy, Minerals & Natural Resources Department
Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87505**

**Re: Capataz Operating, Inc.
L&M #1 - NSL 4952
Lea County, New Mexico**

Dear Mr. Brooks;

Thank you for your telephone call today. The following information is provided in a effort to clarify the history and status of the captioned well and our request to add Blinbry interval perforations from 6050' to 6219' to the captioned NSL.

In November of 2003 Capataz re-entered the captioned well. Previously designated as the Exxon DK State #1 the well had been drilled as a Devonian test and plugged and abandoned by Exxon. Exxon directionally drilled the well to be able to reach a bottom hole location under several large earthen effluent water pits operated by the City of Hobbs sewer and water department (see attached land state photo). Capataz successfully re-entered the Exxon well and renamed it the L&M #1. Capataz ran and cemented 5 1/2" casing to 7403' and completed the well as a Tubb, House field producer through perforations from 6821'-6871'. In May of 2005 Capataz commenced well work to improve the L&M #1 wells economics by perforating and stimulating the Blinbry pay from 6050' to 6192'. This rework was agreed to by all of the Capataz working interest partners. The workover resulted in improved production and it was determined that the Blinbry perforations should be added to the existing NSL #4952 to ensure compliance with NMOCD rules. The lowest Blinbry perforation at 6219' is 652' above the top Tubb perforation and at a calculated surface location of 1368.34' FSL and 965.83' FWL Section 2, T20S-R38E, Lea County. Because Capataz and our partners owned the L&M well and the offsetting acreage and production we did not provide written notice of our application to ourselves. It is our belief that this addition to the existing NSL #4952 is appropriate and we request you grant approval of our request.

Thank you for your assistance.

Sincerely,

CAPATAZ OPERATING, INC.

**H. Scott Davis
President**

Brooks, David K., EMNRD

From: Mackay, Sophie [sophie.mackay@usa.apachecorp.com]
Sent: Wednesday, January 03, 2007 4:26 PM
To: Brooks, David K., EMNRD
Subject: Capataz Acquisition

Mr. Brooks,

Here is the response from our land department, confirming that the working interest for the stated locations are the same.

Sophie Mackay
(918) 491-4864

-----Original Message-----

From: Hanson, Michelle
Sent: Wednesday, January 03, 2007 5:24 PM
To: Mackay, Sophie
Cc: Crist, Rick
Subject: RE: Capataz Acquisition

In regards to Section 2-20S-38E, Lea County, New Mexico, the NW/4SW/4 has the same working interest ownership as the SW/4SW/4, insofar as from the surface to 7,890'.

Michelle Hanson

Landman

918-491-4838

918-491-4854 fax

Apache Corporation

6120 S. Yale Ave., Suite 1500

Tulsa, OK 74136

michelle.hanson@apachecorp.com

-----Original Message-----

From: Crist, Rick
Sent: Wednesday, January 03, 2007 1:04 PM
To: Hanson, Michelle
Subject: FW: Capataz Acquisition

Michelle,

Can you confirm this information below.

Thanks,

Rick Crist
918.491.4800

-----Original Message-----

From: Mackay, Sophie
Sent: Wednesday, January 03, 2007 12:57 PM
To: Crist, Rick
Subject: FW: Capataz Acquisition

Rick,

1/9/2007

Can we confirm this?

Sophie Mackay
(918) 491-4864

-----Original Message-----

From: Brooks, David K., EMNRD [mailto:david.brooks@state.nm.us]
Sent: Wednesday, January 03, 2007 12:56 PM
To: Mackay, Sophie
Subject: RE: Capataz Acquisition

Dear Ms. Mackay

I need confirmation on the ownership. Mr. Davis' letter of December 28 states that "Capataz and our partners own the L&M well and the offsetting acreage." I understand from this that the working interest ownership of the NW/4 SW/4 of Section 2-20S-38E is identical to the working interest ownership of the SW/4 SW/4. Please specifically confirm that this is correct.

Thanks

David Brooks
Assistant General Counsel
505-476-3450

From: Mackay, Sophie [mailto:sophie.mackay@usa.apachecorp.com]
Sent: Wednesday, January 03, 2007 7:58 AM
To: Brooks, David K., EMNRD
Subject: RE: Capataz Acquisition

Mr. Brooks,

It is my understanding that Capataz has submitted all the required paperwork for an amendment to the NSL for the L&M. Can you advise me of when this amendment will be approved, so that Donna Mull in the Hobbs office can approve our change of operator?

Sophie Mackay
(918) 491-4864

-----Original Message-----

From: Brooks, David K., EMNRD [mailto:david.brooks@state.nm.us]
Sent: Friday, October 20, 2006 12:13 PM
To: Mackay, Sophie
Cc: Mull, Donna, EMNRD
Subject: RE: Capataz Acquisition

Dear Ms. Mackay

The letters attached to your e-mail were sent to the Hobbs office. These actions would require administrative permits, and must be filed as applications for administrative orders with the Santa Fe office. We understand that the Hobbs office has advised Capataz of what is required, and that they are preparing the necessary applications. We will address them when received in the Santa Fe Office.

Very truly yours
David K. Brooks
Assistant General Counsel
505-476-3450

1/9/2007

From: Mackay, Sophie [mailto:sophie.mackay@usa.apachecorp.com]
Sent: Thursday, October 19, 2006 7:41 AM
To: Brooks, David K., EMNRD
Subject: Capataz Acquisition

Mr. Brooks,

I spoke to you earlier this week. I would like to follow up and request information on the status of these two applications. We purchased these wells from Capataz, but have not become the official operator due to the regulatory ends that need to be tied up. Can you let me know if there are any problems with these applications, or if you have what you need to approve them? Also, can you give me a time frame on how long this usually takes?

Thank you for your time and assistance.

Sophie Mackay
Engineering Tech I
Apache Corporation
(918) 491-4864 Phone
(918) 491-4853 Fax
sophie.mackay@apachecorp.com

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District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources

Form C-104
Revised June 10, 2003

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Submit to Appropriate District Office
5 Copies

☐ AMENDED REPORT

I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

¹ Operator name and Address Capataz Operating, Inc PO Box 10549 Midland, TX 79702		² OGRID Number 3659
		³ Reason for Filing Code/ Effective Date RC - 05/19/2005
⁴ API Number 30 -025-28287	⁵ Pool Name House; Tubb	⁶ Pool Code 78760
⁷ Property Code 32978	⁸ Property Name L&M	⁹ Well Number 1

II. ¹⁰ Surface Location

UL or lot no. N	Section 2	Township 20S	Range 38E	Lot Idn	Feet from the 660	North/South Line South	Feet from the 1320	East/West line West	County Lea
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¹¹ Bottom Hole Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
¹² Lse Code S	¹³ Producing Method Code P	¹⁴ Gas Connection Date 05/19/2005	¹⁵ C-129 Permit Number	¹⁶ C-129 Effective Date	¹⁷ C-129 Expiration Date				

III. Oil and Gas Transporters

¹⁸ Transporter OGRID	¹⁹ Transporter Name and Address	²⁰ POD	²¹ O/G	²² POD ULSTR Location and Description
209316	Seminole Transportation 3405 Edloe, Ste 280 Houston, TX 77027		O	N, Sec 2, T 20S, R 38E
020809	Southern Union (Sid Richardson) 201 Main, Ste 9 Ft Worth, TX 76102		G	N, Sec 2, T 20S, R 38E

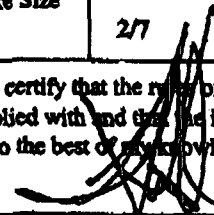
IV. Produced Water

²³ POD	²⁴ POD ULSTR Location and Description N, Sec 2, T 20S, R 38E
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V. Well Completion Data

²⁵ Spud Date 11/04/2003	²⁶ Ready Date 05/19/2005	²⁷ TD 7403	²⁸ PBD 7403	²⁹ Perforations 6821-6871	³⁰ DHC, MC
³¹ Hole Size	³² Casing & Tubing Size	³³ Depth Set	³⁴ Sacks Cement		
17-1/4	13-3/8	448	350 sx		
12-1/4	9-5/8	3825	1500 sx		
7-7/8	5-1/2	7403	1780 sx		

VI. Well Test Data

³⁵ Date New Oil 05/19/2005	³⁶ Gas Delivery Date 05/19/2005	³⁷ Test Date	³⁸ Test Length 24	³⁹ Tbg. Pressure	⁴⁰ Csg. Pressure
⁴¹ Choke Size 2/7	⁴² Oil	⁴³ Water 3/12	⁴⁴ Gas 18/74	⁴⁵ AOF	⁴⁶ Test Method Pumping
⁴⁷ I hereby certify that the records of the Oil Conservation Division have been complied with and that the information given above is true and complete to the best of my knowledge and belief. Signature: 			OIL CONSERVATION DIVISION		
Printed name: H Scott Davis			Approved by:		
Title: Agent			Title:		
E-mail Address: Capataz1@sbcglobal.net			Approval Date:		
Date: 07/26/2006		Phone: (432)620-8820			