

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

SUBMIT IN TRIPLICATE
(Other instructions
reverse side)

Budget Bureau No. 1004-0135
Expires August 31, 1985

5. LEASE DESIGNATION AND SERIAL NO.

NM-025530

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME

Hondo "B" Federal

9. WELL NO.

1

10. FIELD AND POOL, OR WILDCAT

West Red Lake Q-G-5A

11. SEC., T., R., M., OR BLK. AND
SURVEY OR AREA

Sec. 4, T-18S, R-27E

12. COUNTY OR PARISH

Eddy

13. STATE

NM

SUNDRY NOTICES AND REPORTS ON WELLS RECEIVED

(Do not use this form for proposals to drill or to deepen or plug back to a different reservoir.
Use "APPLICATION FOR PERMIT—" for such proposals.)

1. OIL WELL ☒ GAS WELL ☐ OTHER ☐ MAR 21 '88
2. NAME OF OPERATOR Hondo Oil and Gas Company ✓ O. C. D.
3. ADDRESS OF OPERATOR ARTESIA, OFFICE
P.O. Box 2208, Roswell, New Mexico 88201
4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.*
See also space 17 below.)
At surface 2086' FNL & 440' FEL
14. PERMIT NO.
15. ELEVATIONS (Show whether DF, RT, GR, etc.)
3563' DF

Check Appropriate Box To Indicate Nature of Notice, Report, or Other Data

NOTICE OF INTENTION TO:

TEST WATER SHUT-OFF ☐ PULL OR ALTER CASING ☐
FRACTURE TREAT ☐ MULTIPLE COMPLETE ☐
SHOOT OR ACIDIZE ☐ ABANDON* ☐
REPAIR WELL ☐ CHANGE PLANS ☐

(Other) Surface Commingle

SUBSEQUENT REPORT OF:

WATER SHUT-OFF ☐ REPAIRING WELL ☐
FRACTURE TREATMENT ☐ ALTERING CASING ☐
SHOOTING OR ACIDIZING ☐ ABANDONMENT* ☐
(Other) ☐

(NOTE: Report results of multiple completion on Well Completion or Recompletion Report and Log form.)

17. DESCRIBE PROPOSED OR COMPLETED OPERATIONS (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work. If well is directionally drilled, give subsurface locations and measured and true vertical depths for all markers and zones pertinent to this work.)*

Application for approval to Surface Commingle the Hondo "B" Federal #1 with the Hondo Federal #1 and Hondo Federal #2 Battery. We plan to lay approximately 1230' of 2" line from the Hondo "B" Federal #1 and tie into an existing line to the Hondo Federal #1 and Hondo Federal #2 Battery.

1. Lease Description:

- A. Hondo Federal #1, SW NE of Section 4, T-18S, R-27E.
- B. Hondo Federal #2, NE NE of Section 4, T-18S, R-27E.
- C. Hondo "B" Federal #1, SE NE of Section 4, T-18S, R-27E.

2. Working interest & mineral interest ownership are common for both leases. Hondo owns 100% W.I. and MMS owns 12.5% mineral interest in both leases. All owners of overriding royalties in the Hondo "B" Federal also own overrides in the Hondo Federal but the interests are different between leases.

3. Allocations are based on the following production test:

| | | |
|----------------------|---------|------|
| Hondo Federal #1 | 6 BOPD | 43% |
| Hondo Federal #2 | 3 BOPD | 21% |
| Hondo "B" Federal #1 | 5 BOPD | 36% |
| | 14 BOPD | 100% |

4. The oil gravity for all wells is approximately 40.8°.

5. A schematic of the Hondo Federal battery is enclosed.
(continued on next page.)

18. I hereby certify that the foregoing is true and correct

SIGNED William D. Fulton

TITLE Petroleum Engineer

DATE 02/23/88

(This space for Federal or State office use)

APPROVED BY
CONDITIONS OF APPROVAL, IF ANY:

TITLE CARLSBAD RESOURCE AREA

DATE 3-15-88

*See Instructions on Reverse Side

6. With the current price of oil at \$16.50/bbl and the production from the Hondo "B" Federal #1 the increased revenue will total \$82.50/Day (\$16.50 X 5 BOPD = \$82.50/Day).
7. A schematic of the new line is attached. See Exhibit A.
8. A Lease Plat identifying all three wells is attached. See Exhibit B.
9. Since the crude oil gravity is the same for both leases no loss of value will occur by commingling.
10. Estimated cost of facilities to separate and store production from the Hondo "B" Federal would be:

| | |
|-----------------------------------|---------------|
| 1 - 300 bbl steel stock tank | \$ 5,200 |
| 1 - 210 bbl fiberglass water tank | 3,200 |
| 1 - heater treater | 5,000 |
| Flowline & fittings | <u>1,000.</u> |
| | \$14,400. |

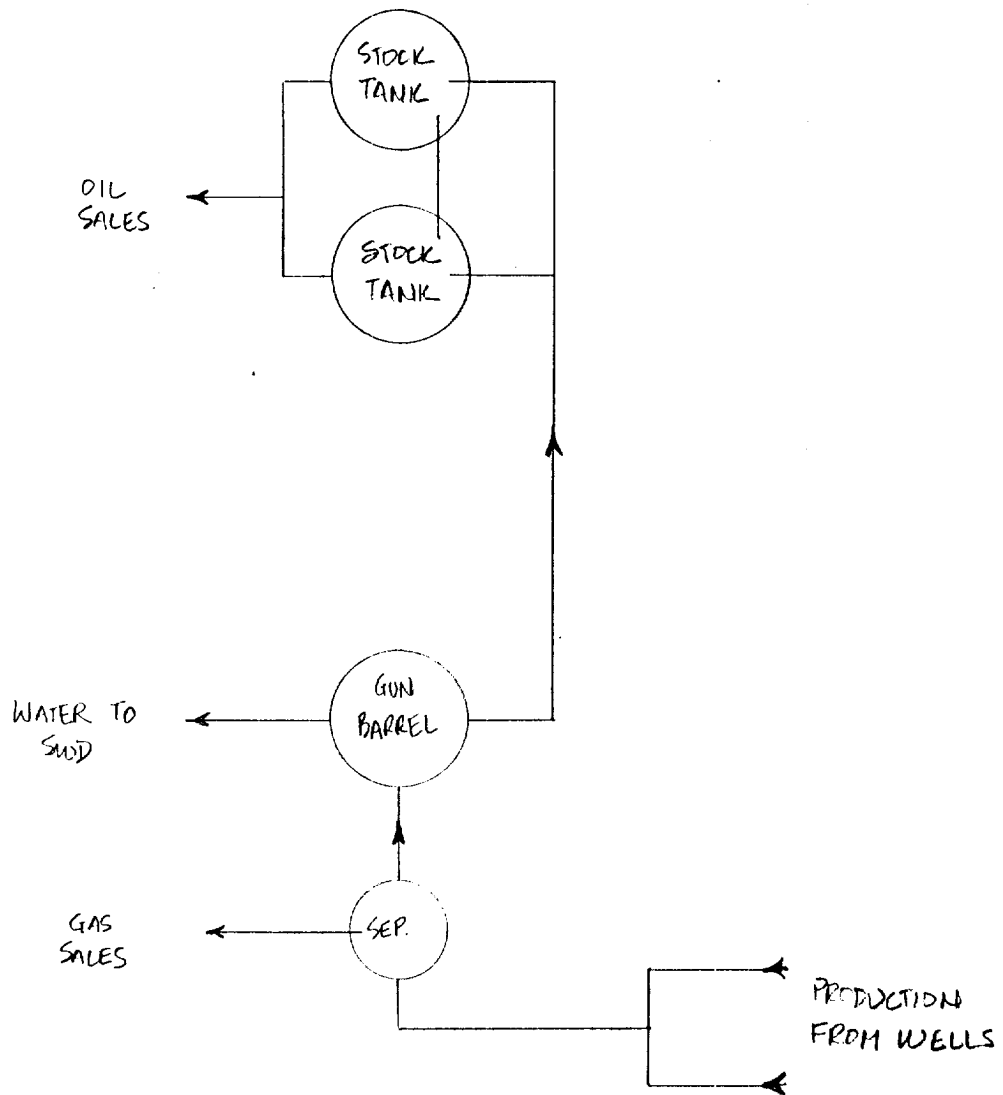
Hondo Oil & Gas Company owns 100% W.I. and 75% N.R.I. in this lease. Operating expenses average \$1000/month per well. Assuming no decline in production after expenses and taxes, payout of this investment would occur in 19 months.

$$\begin{aligned} & 5 \text{ BOPD} \times 30.4 \text{ /mo} \times \$16.50/\text{bbl} \times 0.75\% \text{ NRI} \times \\ & 0.93 (\% \text{ after taxes}) = \end{aligned}$$

$$\begin{aligned} & \$1750/\text{mo net income} \\ & \underline{-1000 \text{ expenses}} \\ & 750/\text{mo net CF} \end{aligned}$$

This payout does not meet our investment criteria. The payout would further lengthen assuming a natural decline in oil production. We therefore request approval of this commingling application whereby we can utilize existing facilities on the Hondo Federal Lease to recover the additional production from the Hondo "B" Lease.

BATTERY FACILITIES
HONDO FEDERAL LEASE



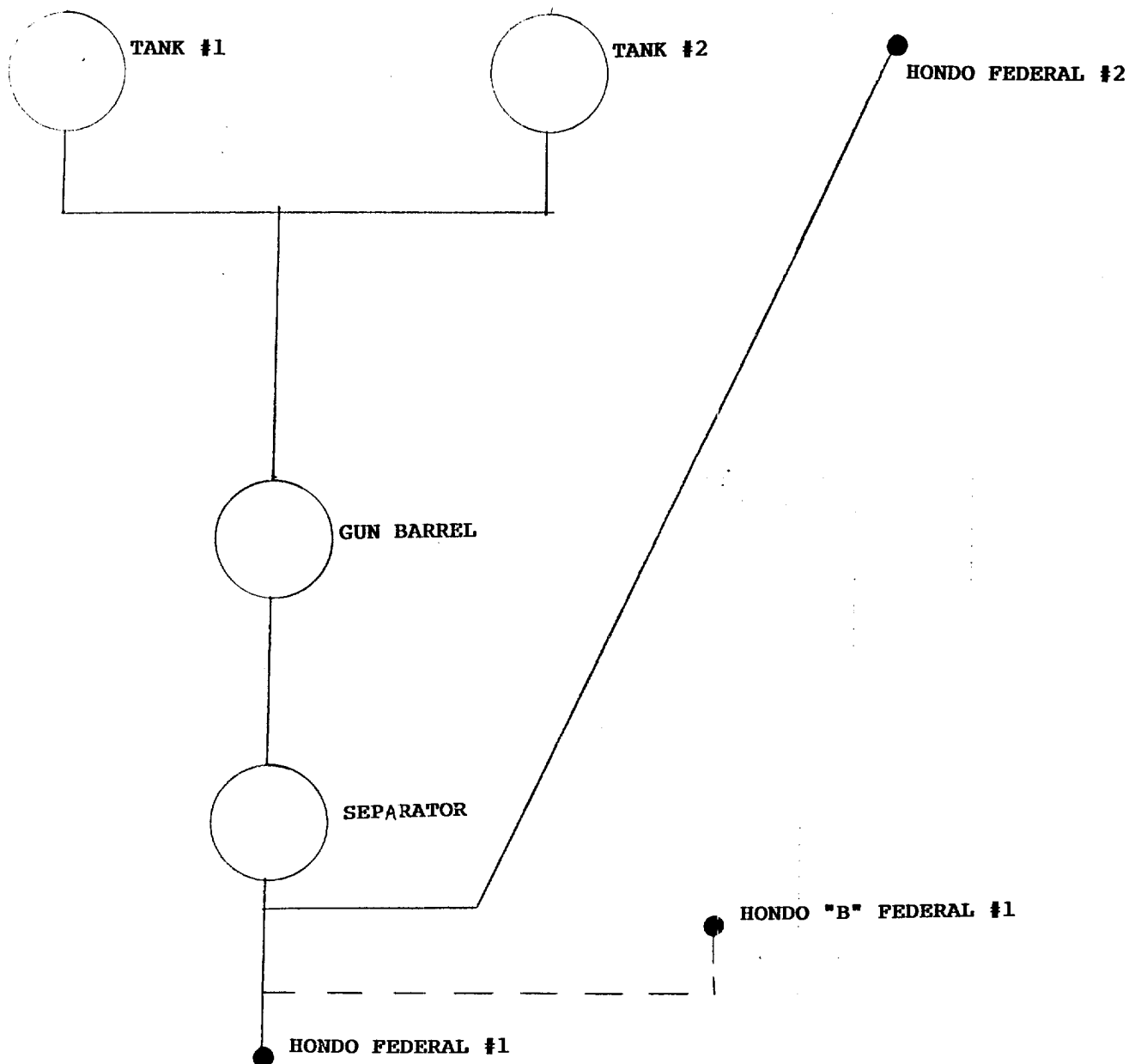


EXHIBIT A
HONDO OIL AND GAS COMPANY
SURFACE COMMINGLE APPLICATION
HONDO "B" FEDERAL #1
EDDY COUNTY, NEW MEXICO

LEGEND
 - - - - - **NEW LINE**
 ————— **EXISTING LINES**

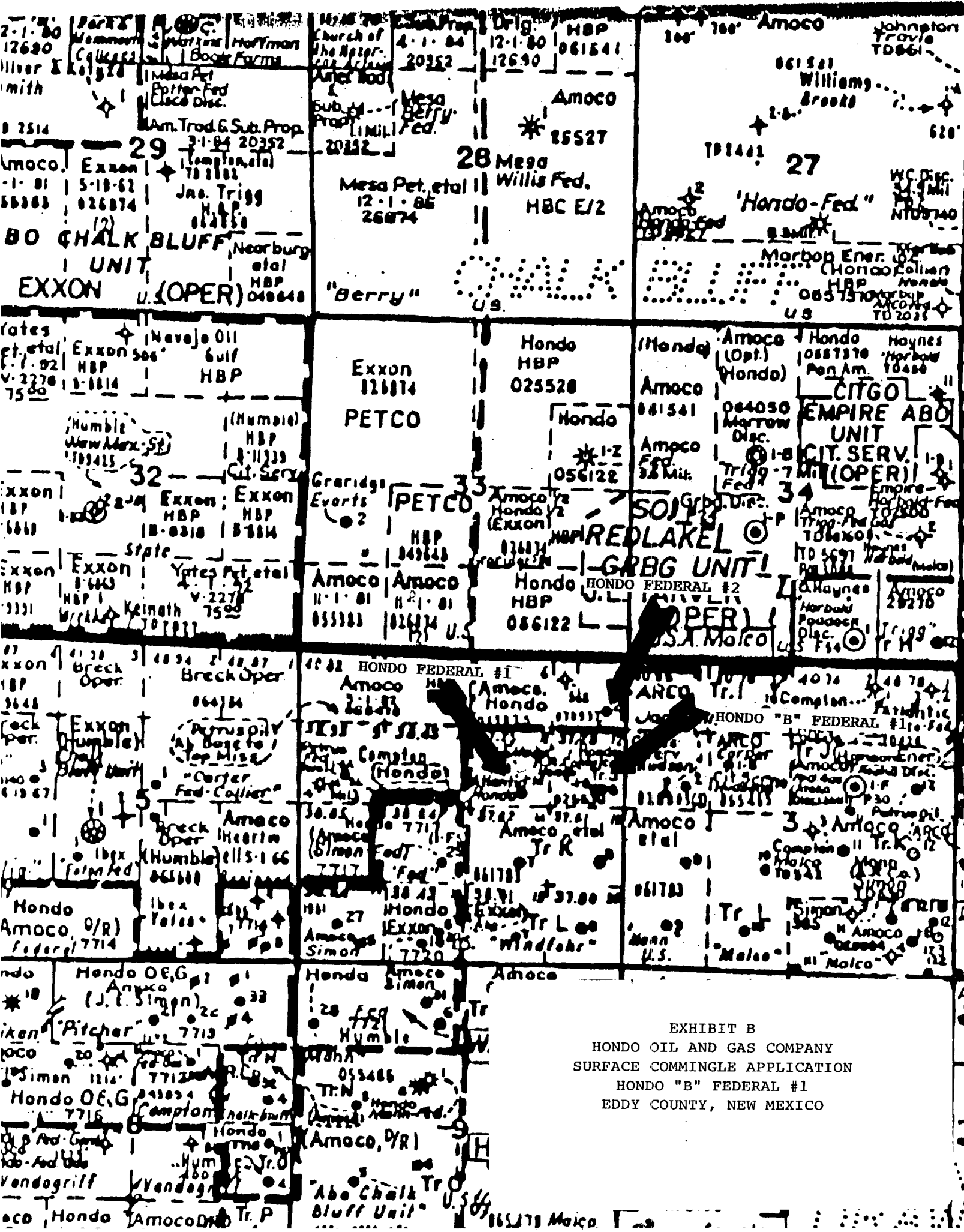


EXHIBIT B
HONDO OIL AND GAS COMPANY
SURFACE COMMINGLE APPLICATION
HONDO "B" FEDERAL #1
EDDY COUNTY, NEW MEXICO