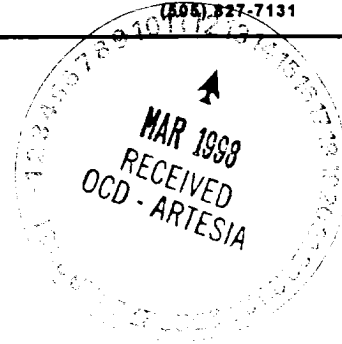




NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

March 10, 1998



Strata Production Company
P. O. Drawer 1030
Roswell, New Mexico 88202-1030
Attention: Carol J. Garcia

Administrative Order NSL-3967(NSBHL)

Dear Ms. Garcia:

Reference is made to the following (i) your application dated February 2, 1998; (ii) your telephone conversation with Michael Stogner on February 13, 1998; and, (iii) the records of the Division in Santa Fe: all concerning Strata Production Company's ("Strata") request to horizontally drill its Nash Unit Well No. 36 within the Nash Draw-Brushy Canyon Pool underlying an 80-acre project area comprising the NE/4 SE/4 (Unit I) of Section 11 and the NW/4 SW/4 (Unit L) of Section 12, both in Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico.

The Division Director Finds That:

- (1) The subject application has been duly filed under the provisions of Rule 104.F of the general statewide rules and regulations of the New Mexico Oil Conservation Division ("Division");
- (2) The Nash Draw-Brushy Canyon Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 23 SOUTH, RANGE 29 EAST, NMPM

Section 12:	S/2
Section 13:	N/2 and SE/4
Section 14:	E/2
Section 24:	NE/4

TOWNSHIP 23 SOUTH, RANGE 30 EAST, NMPM

Section 18:	NW/4
Section 19:	W/2
Section 30:	All
Section 31:	NE/4
Section 32:	NW/4;

- (3) Said pool is subject to the statewide rules and regulations, as promulgated by Rule

104.C(1)(a), which provides for 40-acre oil spacing and proration units, or drilling units, and requires that wells be located no closer than 330 feet to the outer boundary of a single 40-acre oil spacing and proration unit;

- (4) A "project area" proposed by Strata would consist of an oversize spacing unit comprising 80 acres (two standard 40-acre tracts) underlying the NE/4 SE/4 (Unit I) of Section 11 and the NW/4 SW/4 (Unit L) of Section 12, both in Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico;
- (5) It is our understanding that Strata proposes to drill its Nash Unit Well No. 36 at a surface location 1460 feet from the South line and 1585 feet from the West line (Unit K) of Section 11, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, kick-off from vertical in a west-northwesterly direction at an approximate depth of 3,100 feet and build angle to approximately 10 degrees. At an approximate depth of 5,190 feet (TVD) the wellbore is expected to encounter the top of the Brushy Canyon formation at an unorthodox subsurface oil well location 1605 feet from the South line and 1293 feet from the West line (Unit L) of said Section 12. At an approximate depth of 6350 feet a second kick-off will be made from the wellbore, angle will be increased to 90 degrees and a horizontal drainhole will be drilled at a lateral distance of 1200 feet;
- (6) All of Section 11, the W/2 of Section 12, the W/2 of Section 13, and the NE/4 and E/2 SE/4 of Section 14, all in Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico is within the Strata operated Nash Unit; and,
- (7) It appearing the applicant has satisfied all of the appropriate requirements prescribed in Rules 111.C(2) and 104.F, the subject application should be approved and the subject horizontal drainhole and 80-acre project area should be governed by the provisions contained within this order and all other applicable provisions of Division General Rule 111.

It Is Therefore Ordered That:

- (1) Strata Production Company is hereby authorized to operate a horizontal/high angle directional drilling project area [as defined by Division General Rule 111.A(3) and 111.C(3)] within the 80 acres that comprises the NE/4 SE/4 of Section 11 and the SW/4 NW/4 of Section 12, Township 23 South, Range 29 East, NMPM, Nash Draw-Brushy Canyon Pool, Eddy County, New Mexico, in which the proposed Nash Unit Well No. 36 to be drilled at a surface location 1460 feet from the South line and 1585 feet from the West line (Unit K) of said Section 12, is to

Administrative Order NSL-3967(NSBHL)

Strata Production Company

March 10, 1998

Page 3

(2) The applicable drilling window or producing area within the Nash Draw-Brushy Canyon Pool for said wellbore shall include that area within the subject 80-acre project area comprising the NE/4 SE/4 of Section 11 and the SW/4 NW/4 of Section 12, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, that is:

(a) no closer than 330 feet to the northern, western, and southern boundaries of said 80-acre project area; and,

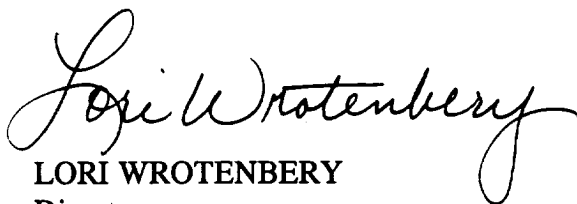
(b) no closer than 27 feet to the eastern boundary of said 80-acre project area.

(2) The operator shall comply with all applicable requirements and conditions set forth in Division General Rule 111.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

S E A L

cc: New Mexico Oil Conservation Division - Artesia /
U. S. Bureau of Land Management - Carlsbad