

12/3/02	12/23/02	ENGINEER	LOGGED IN	NV	TYPE	NSL	APP NO.	233928085
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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



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.

William F. Carr
Print or Type Name

William F. Carr
Signature

ATTORNEY
Title

12.3.02
Date

wcarr@hollandhart.com
e-mail Address

HOLLAND & HART LLP
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P. O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501-6525

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

William F. Carr

wcarr@hollandhart.com

December 3, 2002

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Cortez Operating Company (formerly known as Home-Stake Oil & Gas Company) for administrative approval of an unorthodox bottomhole well location for its Sarah Johnson Well No. 2 in the Drinkard Oil Pool 1525 feet from the South line and 2340 feet from the East line of Section 22, Township 22 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Dear Ms. Wrotenbery:

Cortez Operating Company ("Cortez"), formerly known as Home-Stake Oil & Gas Company ("Home-Stake") hereby seeks administrative approval pursuant to the provisions of Division Rule 104.F adopted on August 12, 1999, of an unorthodox bottomhole location for its Sarah Johnson Well No. 2 in the Drinkard formation, Drinkard Oil Pool, at a point 1525 feet from the South line and 2340 from the East line of Section 22, Township 22 South Range 37 East, NMPM, Lea County, New Mexico. A standard 40-acre oil spacing and proration unit comprised of the NW/4 SE/4 (Unit J) of Section 22 is dedicated to the well.

This well was drilled by Home-Stake in April, 1999 at an unorthodox location 1600 feet from the South line and 2288 feet from the East line of Section 22. The unorthodox location was approved for a well to be drilled to the Undesignated South McCormack-Silurian Pool by Division Administrative Order NSL-4259 dated April 19, 1999. The well is now operated by Cortez Operating Company that acquired Home-Stake Oil & Gas Company in December, 2000. Cortez is obtaining a rider to its existing bond reflecting its name change and has filed Division Form C-104-B with attached well list with the Division.

Administrative Application for Unorthodox Well Location

December 3, 2002

Page 2

The well was drilled to a depth of approximately 7300 feet, plugged back to 5305 feet and side tracked to a bottomhole location 1363 feet from the South line and 2516 feet from the East line at a total depth of 7475 feet in the Fusselman formation. The well was unsuccessful in the Fusselman formation and was re-completed in the Drinkard formation at a depth of 6350 feet to 6493 feet in July 1999. The bottomhole location in the Drinkard formation is 1525 feet from the South line and 2340 feet from the East line of Section 22. A search of the records by Cortez indicates that although a directional survey was run on the well and was filed with the

Division in July 1999, no application to amend Administrative Order NSL-4259 for the bottomhole location in either the Fusselman or the Drinkard formations was filed by Home-Stake with the Division. None of the people who were employed by Home-Stake and who were responsible for the directional drilling of this well are now employed by Cortez Operating Company.

The bottom hole location in the Drinkard formation, Drinkard Oil Pool, is unorthodox because it is governed by Division Rule 104.B that provides for wells on 40-spacing units to be located no closer than 330 feet to the outer boundary of the quarter-quarter section on which the well is located. The unorthodox well location in the Drinkard is 300 feet from the West line and 205 feet from the South line of the dedicated acreage or 30 feet closer to the West line and 125 feet closer to the South line than permitted by the rules of the Division.

Attached hereto as Exhibit A is a plat that shows the subject area, the 40-acre spacing unit comprised of the NW/4 SW/4 of Section 22 and the surface and unorthodox bottom hole location of the well. The only "Affected Persons" under Rule 1207(2)(a) are John H. Hendrix Corporation, the Division-designated operator of the direct west offsetting tract (NE/4 SW/4 of Section 22) and Lewis B. Burleson, Inc. the Division-designated operator of the Southwest offsetting tract (SE/4 SW/4 of Section 22). Attached to this application as Exhibits B and C are waivers of objection to this location from John H. Hendrix Corporation and Lewis B. Burleson, Inc. The SW/4 SE/4 of Section 22 is one common lease with the 40-acre tract dedicated to the Sarah Johnson Well No. 2 and the ownership (working interest and royalty interests) is identical in both tracts. Accordingly, there are no other "affected persons" to whom notice of this application must be provided.

A copy of Division Form C-104 with attached Halliburton Drilling Systems Survey Report that confirms the downhole location of the wellbore in the Drinkard and Fusselman formations is ready to be filed with the Division's District office in Hobbs as soon as this location is approved. Enclosed for your information as Exhibit D is a copy of this form and attached as Exhibit E is a copy of Division Form C-103 which reflects the recompletion of the well to the Drinkard formation. These forms correct the information previously filed with the Division by Home-Stake and will be filed as soon as the location of the well in the Drinkard formation is approved.

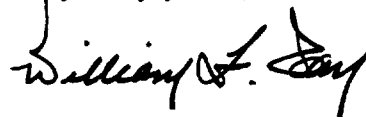
Administrative Application for Unorthodox Well Location

December 3, 2002

Page 3

A draft order approving this application is enclosed for your consideration.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and a stylized "C".

William F. Carr

Attorney for Cortez Operating Company

Enclosures:

Orientation Plat

Waiver Letters

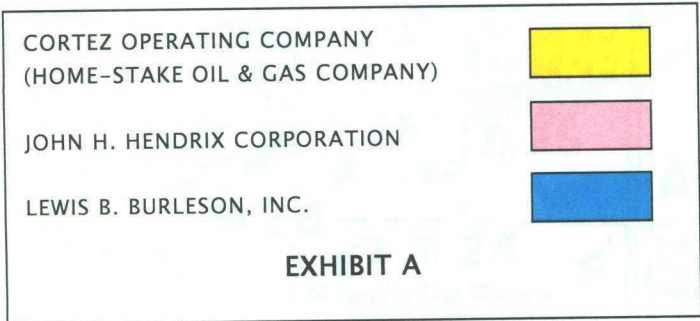
Halliburton Report

Division form C-103

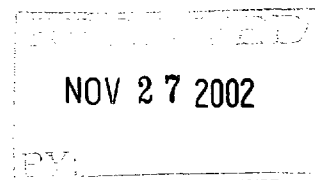
Division Form C-104

cc: Mr. Todd Laney
Cortez Operating Company

CORTEZ OIL & GAS, INC.



November 20, 2002



John H. Hendrix Corporation
110 North Marienfeld, Suite 400
Midland, TX 79701-4412

Re: Home-Stake Oil & Gas Company
Sarah Johnston Well No. 2-Unorthodox well location
Section 22, T22S, R37E
Lea County, New Mexico.

VIA FAX (915) 684-7317
AND OVERNIGHT MAIL
PH (915) 684-6631

Gentlemen:

Home-Stake Oil & Gas Company ("HSOG"), now known as Cortez Operating Company ("Cortez"), drilled the Sarah Johnston Well No. 2 to test the Fusselman Formation, South McCormack-Silurian Pool, at a surface location of 1,600 feet from the South line and 2,288 feet from the East line, and at an unorthodox bottomhole location 1,363 feet from the South line and 2,516 feet from the East line of Section 22, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico. The well was unsuccessful in the Fusselman and it has been recompleted in the Drinkard formation at a location 1,525 feet from the South line and 2,340 feet from the East line of said Section 22. This well location in the Drinkard formation is unorthodox toward the west and south lines of the dedicated 40-acre spacing unit (NW/4 SE/4) on which it is located. It has been determined, that, John H. Hendrix Corporation ("Hendrix") is an offset operator in the NE/4 SW/4 and is therefore affected by this location.

At this time, Cortez requests that Hendrix waive its objection to this location in the Fusselman and Drinkard formations by signing and dating a copy of this letter in the space below, and returning one executed copy of this letter to Cortez for further handling.

If you have questions concerning this well or application, please contact the undersigned, at (972) 781-6595, ext. 120. Your help in regard to this matter is most appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Laney".

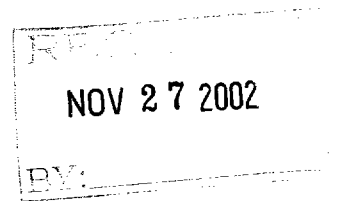
Todd Laney, CPL
Land Manager

WAIVER OF OBJECTION:

John H. Hendrix Corporation, through its undersigned authorized representative, waives objection to the location of the Home-Stake Oil & Gas Company (now known as Cortez Operating Company) Sarah Johnston Well No. 2 in the Fusselman and Drinkard formations.

BY: A handwritten signature in black ink, appearing to read "Rennie H. Westbrook".
Name: Rennie H. Westbrook
Title: Vice President
Date: 11-25-02

November 20, 2002



Lewis B. Burleson, Inc.
200 North Loraine Street, #600
Midland, TX 79701-4412
Attention: Mr. Steve Burleson

Re: Home-Stake Oil & Gas Company
Sarah Johnston Well No. 2-Unorthodox well location
Section 22, T22S, R37E
Lea County, New Mexico.

VIA FAX (915) 683-5172
AND OVERNIGHT MAIL
PH (915) 683-4747

Gentlemen:

Home-Stake Oil & Gas Company ("HSOG"), now known as Cortez Operating Company ("Cortez"), drilled the Sarah Johnston Well No. 2 to test the Fusselman Formation, South McCormack-Silurian Pool, at a surface location of 1,600 feet from the South line and 2,288 feet from the East line, and at an unorthodox bottomhole location 1,363 feet from the South line and 2,516 feet from the East line of Section 22, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico. The well was unsuccessful in the Fusselman and it has been recompleted in the Drinkard formation at a location 1,525 feet from the South line and 2,340 feet from the East line of said Section 22. This well location in the Drinkard formation is unorthodox toward the west and south lines of the dedicated 40-acre spacing unit (NW/4 SE/4) on which it is located. It has been determined, that, Lewis B. Burleson, Inc. ("Burleson") is an offset operator in the SE/4 SW/4 and is therefore affected by this location.

At this time, Cortez requests that Burleson waive its objection to this location in the Fusselman and Drinkard formations by signing and dating a copy of this letter in the space below, and returning one executed copy of this letter to Cortez for further handling.

If you have questions concerning this well or application, please contact the undersigned, at (972) 781-6595, ext. 120. Your help in regard to this matter is most appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Laney".

Todd Laney, CPL
Land Manager

WAIVER OF OBJECTION:

Lewis B. Burleson, Inc., through its undersigned authorized representative, waives objection to the location of the Home-Stake Oil & Gas Company (now known as Cortez Operating Company) Sarah Johnston Well No. 2 in the Fusselman and Drinkard formations.

BY: A handwritten signature in black ink, appearing to read "Steven Burleson".
Name: Steven Burleson
Title: V.P.
Date: 11/22/02

CERTIFIED SURVEYS

HOME STAKE OIL & GAS COMPANY

SARAH JOHNSTON #2

LEA COUNTY, NEW MEXICO

SEC. 22-T22S-R37E

Sur: J - 1600/S & 2288/E

? — BHL: 8 - 363/S & 2516/E — ? OK

APF 30-025-34611

SHOULD BE

1363'

JUNE 10, 1999

DANNA:

(C104 BHL
to FOR DRINKARD)

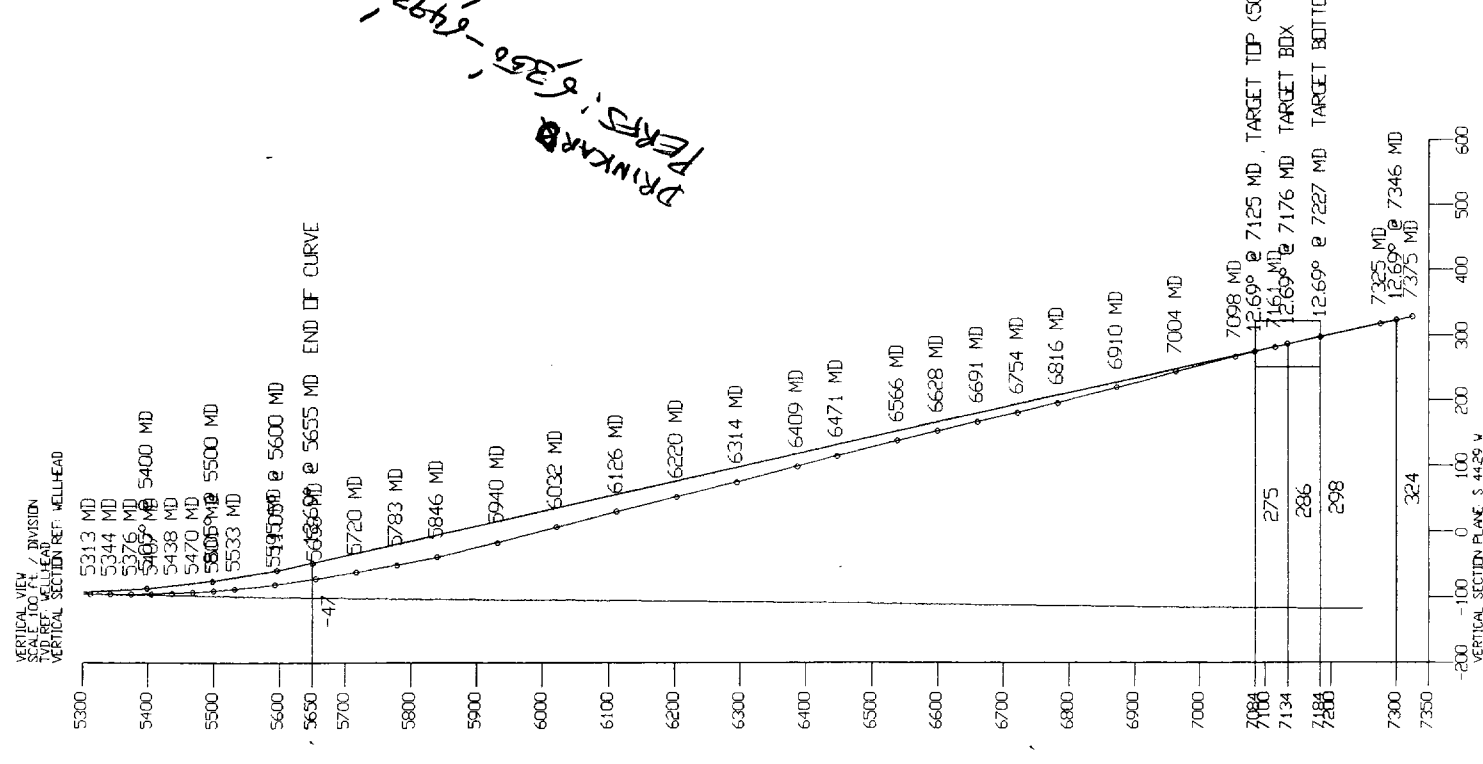
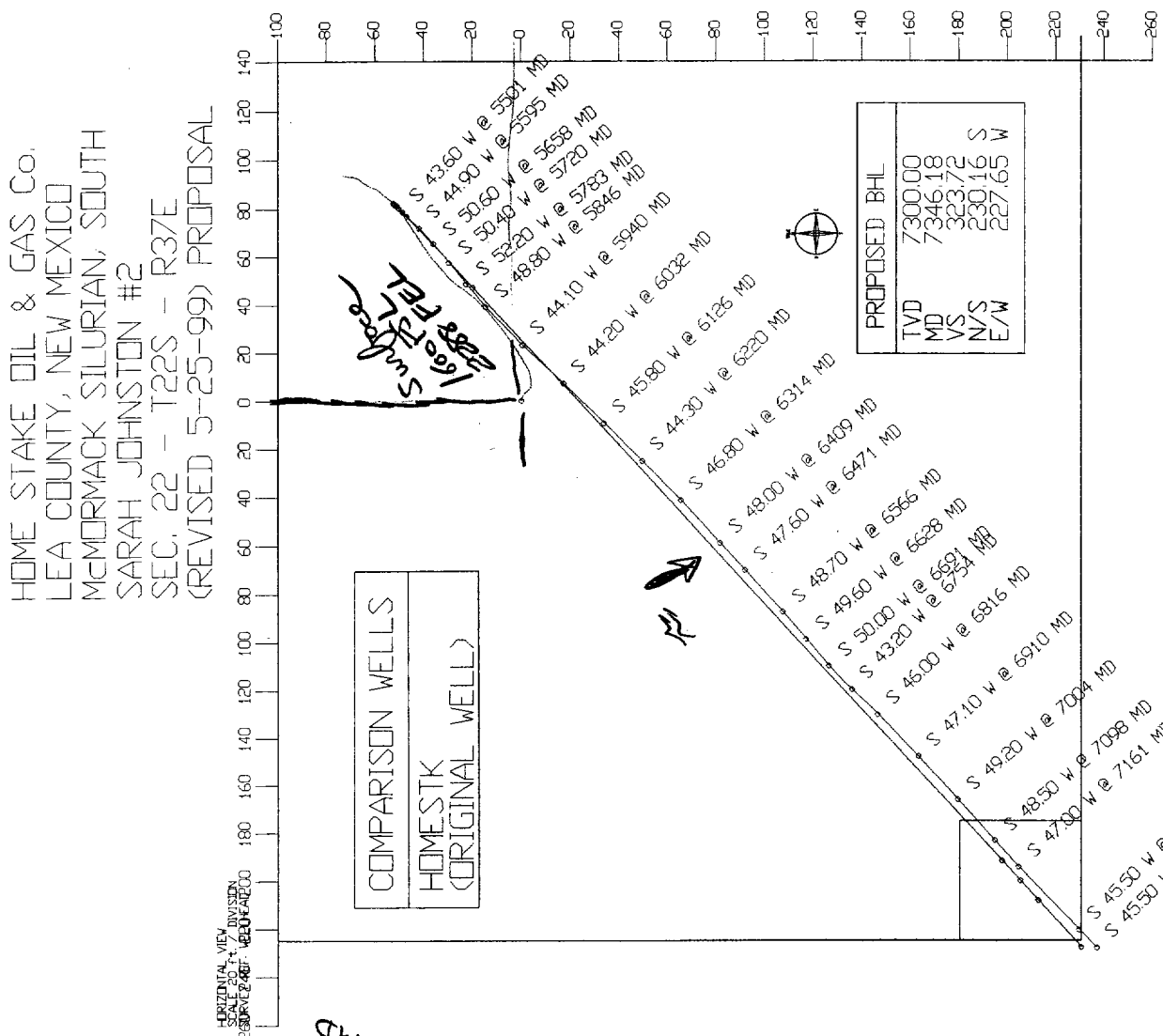
ACTUAL BHL IS

sperry-sun
DRILLING SERVICES

A HALLIBURTON COMPANY



HOME STAKE OIL & GAS Co.
 LEA COUNTY, NEW MEXICO
 McMORMACK SILURIAN, SOUTH
 SARAH JOHNSTON #2
 SEC. 22 - T22S - R37E
 (REVISED 5-25-99) PROPOSAL



6/11/99 10:28 am

sperry-sun

DRILLING SERVICES

A HALLIBURTON COMPANY

9800 West Reno / Oklahoma City, OK 73127 / 405-324-2222 / 405-324-1009 (Fax)

June 10, 1999

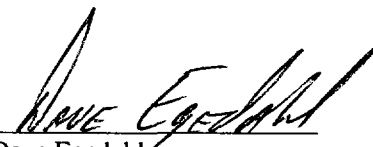
Sent directly to NM OCO
by Sperry Sun.

Re: Home Stake Oil & Gas Company
Sarah Johnston #2
Sec. 22-T22S-R37E
Lea County, New Mexico

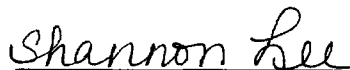
Enclosed please find the original surveys performed on the referenced well by Halliburton/Sperry Sun.

<u>Name & Title of Surveyor</u>	<u>Drainhole Number</u>	<u>Surveyed Depths</u>	<u>Dates Performed</u>	<u>Type of Survey</u>
John Strahan Directional Driller	Sidetrack	5305' - 7375'	05/25/99 - 06/06/99	Directional/MWD

If any other information is required, please contact the undersigned at the letterhead address and phone number.


Dave Egedahl
Operations Engineer

My Commission Expires: 11-30-99


Shannon Lee
Notary Public



HALLIBURTON

POST WELL SUMMARY

From May 25, 1999 To June 6, 1999

Page 1
6/10/99 3:15:04 pm
Version VER2.2.6

Job No.:	HOMESTAKE OIL & GAS	AFE No.:	SEC. 22-T22S-R37E	Company Man:	KEN MOZINGO
Operator:	LEA COUNTY, NEW MEXICO	Location:	LEA COUNTY, NEW MEXICO		
Field:	LEA COUNTY, NEW MEXICO	MWD Operator(s):	MATT, DON/JASON		
Well:	HOMESTK	Dir'l Driller(s):	JOHN STRAHAN		

FOOTAGE DRILLING		AVERAGE		DRILLING AVERAGE		AVERAGE DRILLING	
DRILLED	HOURS	ROP		DAYS	FTG/DAY	HRS/DAY	
2070.00	136.50	15.16		11.58	178.80		11.79

RUN No.	BHA No.	DEPTH	ANGLE	DEPTH		AVERAGE	BUILD	FLOW	ON-BOTTOM	MAX. BH TEMP	MOTOR SERIAL No.	
				IN	OUT							
1	1	5305.00	0.48	5804.00	11.10	499.00	59.50	8.39	2.13	0	1838	65M-047
1	2	5804.00	11.10	7375.00	12.10	1571.00	77.00	20.40	0.06	0	1825	HT64136

RUN No.	BHA No.	BIT SIZE(in)	BIT MODEL	BIT NOZZLES (/32nd)	MOTOR Description_CAP	STAB O.D.	DISTANCE CTR TO BIT	REASON FOR TRIP
1	1	7-7/8"	F47-HPS	12 12 12	6-1/2" SLO-SPEED 5/6 X 1.50° bend	----	----	MP - Motor performance
1	2	7-7/8"	F47-HPS	12 12 12	6-1/2" SLO-SPEED 5/6 X 1.50° bend	----	----	<undefined>

RUN No.	BHA No.	SLIDE FTG	ROTATES FTG	SLIDE HRS	ROTATE HRS	SLIDE ROP	ROTATE ROP	CIRCULATE HRS	COMMENTS
1	1	386.00	113.00	52.75	6.75	7.32	16.74	60.00	KICK OFF & BUILD 3 DEG/100 TO 15.3 @ S47W
1	2	238.00	1333.00	14.00	63.00	17.00	21.16	101.67	FINISH BUILDING ANGLE & HOLD TO TD

F

Survey Report

Date: 6/10/99

Time: 3:42 pm

Wellpath ID: HOMESTK

Date Created: 5/28/99

Last Revision: 6/10/99

Calculated using the Minimum Curvature Method

Computed using PDS VER2.2.6

Vertical Section Plane: 224.29 deg.

Survey Reference: WELLHEAD

Vertical Section Reference: WELLHEAD

Closure Reference: WELLHEAD

TVD Reference: WELLHEAD

HOME STAKE OIL & GAS COMPANY
LEA COUNTY, NEW MEXICO
McMORMACK; SILURIAN, SOUTH
SARAH JOHNSTON #2
SEC. 22 - T22S - R37E

SURVEY

Measured Depth (ft)	Incl (deg.)	Drift Dir. (deg.)	Course Length (ft)	TVD (ft)	Vertical Section (ft)	T O T A L Rectangular Offsets (ft) (ft)		DLS (dg/100ft)
TIE-IN TO GYRO SURVEY @ 5200' MD								
5200.00	0.95	50.57	0.00	5198.60	-93.57	51.30 N	81.41 E	0.00
5282.00	0.70	37.20	82.00	5280.59	-94.74	52.13 N	82.24 E	0.38
BHA #1 @ 5305' 6 1/2" SS 5/6 x 1.5° BEND - F47-HPS								
5313.00	0.40	30.20	31.00	5311.59	-95.03	52.38 N	82.41 E	0.99
5344.00	0.10	320.50	31.00	5342.59	-95.14	52.49 N	82.44 E	1.22
5376.00	0.70	240.90	32.00	5374.59	-94.96	52.42 N	82.26 E	2.15
5407.00	1.30	219.50	31.00	5405.58	-94.43	52.05 N	81.87 E	2.25
5438.00	2.20	224.50	31.00	5436.57	-93.48	51.36 N	81.23 E	2.94
5470.00	3.20	225.60	32.00	5468.53	-91.97	50.29 N	80.16 E	3.13
5501.00	4.20	223.60	31.00	5499.47	-89.97	48.87 N	78.76 E	3.25
5533.00	5.30	224.90	32.00	5531.36	-87.32	46.97 N	76.90 E	3.45
5595.00	7.40	224.90	62.00	5592.97	-80.47	42.11 N	72.06 E	3.39
5658.00	9.00	230.60	63.00	5655.33	-71.51	36.11 N	65.39 E	2.85
5720.00	9.90	230.40	62.00	5716.49	-61.39	29.64 N	57.54 E	1.45
5783.00	10.40	232.20	63.00	5778.50	-50.37	22.70 N	48.87 E	0.94
BHA #2 @ 5804' 6 1/2" SS 5/6 X 1.5° BEND - F47-HPS								
5846.00	12.50	228.80	63.00	5840.25	-37.94	14.72 N	39.25 E	3.50
5940.00	14.60	224.10	94.00	5931.63	-15.95	0.49 S	23.35 E	2.52
6032.00	14.80	224.20	92.00	6020.61	7.39	17.24 S	7.09 E	0.22
6126.00	14.00	225.80	94.00	6111.66	30.77	33.77 S	9.44W	0.95
6220.00	13.40	224.30	94.00	6202.99	53.02	49.50 S	25.20W	0.74

5

HALLIBURTON DRILLING SYSTEMS

Page 2

Date: 6/10/99

Survey Report

Wellpath ID: HOMESTK

Measured Depth (ft)	Incl (deg.)	Drift Dir. (deg.)	Course Length (ft)	TVD (ft)	Vertical Section (ft)	T O T A L Rectangular Offsets (ft) (ft)		DLS (dg/100ft)
6314.00	14.60	226.80	94.00	6294.19	75.75	65.40 S	41.44W	1.43
6409.00	14.30	228.00	95.00	6386.19	99.42	81.45 S	58.89W	0.45
6471.00	14.40	227.60	62.00	6446.25	114.76	91.77 S	70.27W	0.23
<i>6493</i>						<i>95.59 S</i>	<i>74.41</i>	
6566.00	13.90	228.70	95.00	6538.37	137.93	107.27 S	87.57W	0.60
6628.00	13.50	229.60	62.00	6598.61	152.56	116.87 S	98.67W	0.73
6691.00	12.90	230.00	63.00	6659.94	166.88	126.16 S	109.66W	0.96
6754.00	12.80	223.20	63.00	6721.37	180.86	135.77 S	119.82W	2.40
6816.00	14.80	226.00	62.00	6781.58	195.64	146.28 S	130.22W	3.40
6910.00	15.10	227.10	94.00	6872.39	219.87	162.95 S	147.83W	0.44
7004.00	14.80	229.20	94.00	6963.21	244.06	179.13 S	165.89W	0.66
7098.00	13.80	228.50	94.00	7054.30	267.21	194.41 S	183.37W	1.08
7161.00	13.40	227.00	63.00	7115.53	281.99	204.36 S	194.34W	0.85
7325.00	12.10	225.50	164.00	7275.49	318.16	229.37 S	220.50W	0.82
PROJECTION TO TD @ 7375' MD								
7375.00	12.10	225.50	50.00	7324.38	328.64	236.72 S	227.97W	0.00



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Betty Rivera

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

December 4, 2002

Cortez Operating Company
c/o Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

Attention: William F. Carr

Administrative Order NSL-4816

Dear Mr. Carr:

Reference is made to your application received by the New Mexico Oil Conservation Division (Division) on December 3rd 2002, for an unorthodox oil well location for Cortez Operating Company's (formerly Home-Stake Oil & Gas Company) Sarah Johnson Well No. 2 in the Drinkard formation, Drinkard Oil Pool.

Said well is deviated in direction with the Drinkard formation within the well bore located 1525 feet from the South line and 2340 feet from the East line (Unit J) of Section 22, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico. This well is dedicated to a standard 40-acre oil spacing and proration unit in the Drinkard formation comprising the NW/4 SE/4 of said Section 22.

This well was originally drilled targeting the Silurian formation in the Undesignated South McCormack-Silurian Pool at a non-standard location, approved with Division Order NSL-4259. This well was unsuccessful in the Silurian and plugged back by Home-Stake Oil & Gas Company to a non-standard location within the Drinkard Oil Pool. Said non-standard location being 300 feet from the West line and 205 feet from the South line of the dedicated 40-acre NW/4 SE/4 acreage.

The application has been duly filed under the provisions of Rule 104.F of the Rules and Regulations of the Division and waivers of objection have been received from affected parties to the South and the West.

By authority granted me under the provisions of Rule 104.F(2), as revised, the above-described unorthodox well location is hereby **approved**.

Administrative Division Order NSL-4816
Cortez Operating Company
December 4, 2002
Page 2 of 2

Sincerely,

Lori Wrotenberg wvjj

Lori Wrotenberg
Director

LW/wvjj

cc: New Mexico Oil Conservation Division – Hobbs
Cortez Operating Company, Todd Laney – Plano, Texas

HOLLAND & HART LLP
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501-6525

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

William F. Carr

wcarr@hollandhart.com

December 3, 2002

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Cortez Operating Company (formerly known as Home-Stake Oil & Gas Company) for administrative approval of an unorthodox bottomhole well location for its Sarah Johnson Well No. 2 in the Drinkard Oil Pool 1525 feet from the South line and 2340 feet from the East line of Section 22, Township 22 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Dear Ms. Wrotenbery:

Cortez Operating Company ("Cortez"), formerly known as Home-Stake Oil & Gas Company ("Home-Stake") hereby seeks administrative approval pursuant to the provisions of Division Rule 104.F adopted on August 12, 1999, of an unorthodox bottomhole location for its Sarah Johnson Well No. 2 in the Drinkard formation, Drinkard Oil Pool, at a point 1525 feet from the South line and 2340 from the East line of Section 22, Township 22 South Range 37 East, NMPM, Lea County, New Mexico. A standard 40-acre oil spacing and proration unit comprised of the NW/4 SE/4 (Unit J) of Section 22 is dedicated to the well.

This well was drilled by Home-Stake in April, 1999 at an unorthodox location 1600 feet from the South line and 2288 feet from the East line of Section 22. The unorthodox location was approved for a well to be drilled to the Undesignated South McCormack-Silurian Pool by Division Administrative Order NSL-4259 dated April 19, 1999. The well is now operated by Cortez Operating Company that acquired Home-Stake Oil & Gas Company in December, 2000. Cortez is obtaining a rider to its existing bond reflecting its name change and has filed Division Form C-104-B with attached well list with the Division.

Administrative Application for Unorthodox Well Location

December 3, 2002

Page 2

The well was drilled to a depth of approximately 7300 feet, plugged back to 5305 feet and side tracked to a bottomhole location 1363 feet from the South line and 2516 feet from the East line at a total depth of 7475 feet in the Fusselman formation. The well was unsuccessful in the Fusselman formation and was re-completed in the Drinkard formation at a depth of 6350 feet to 6493 feet in July 1999. The bottomhole location in the Drinkard formation is 1525 feet from the South line and 2340 feet from the East line of Section 22. A search of the records by Cortez indicates that although a directional survey was run on the well and was filed with the

Division in July 1999, no application to amend Administrative Order NSL-4259 for the bottomhole location in either the Fusselman or the Drinkard formations was filed by Home- Stake with the Division. None of the people who were employed by Home-Stake and who were responsible for the directional drilling of this well are now employed by Cortez Operating Company.

The bottom hole location in the Drinkard formation, Drinkard Oil Pool, is unorthodox because it is governed by Division Rule 104.B that provides for wells on 40-spacing units to be located no closer than 330 feet to the outer boundary of the quarter-quarter section on which the well is located. The unorthodox well location in the Drinkard is 300 feet from the West line and 205 feet from the South line of the dedicated acreage or 30 feet closer to the West line and 125 feet closer to the South line than permitted by the rules of the Division.

Attached hereto as Exhibit A is a plat that shows the subject area, the 40-acre spacing unit comprised of the NW/4 SW/4 of Section 22 and the surface and unorthodox bottom hole location of the well. The only "Affected Persons" under Rule 1207(2)(a) are John H. Hendrix Corporation, the Division-designated operator of the direct west offsetting tract (NE/4 SW/4 of Section 22) and Lewis B. Burleson, Inc. the Division-designated operator of the Southwest offsetting tract (SE/4 SW/4 of Section 22). Attached to this application as Exhibits B and C are waivers of objection to this location from John H. Hendrix Corporation and Lewis B. Burleson, Inc. The SW/4 SE/4 of Section 22 is one common lease with the 40-acre tract dedicated to the Sarah Johnson Well No. 2 and the ownership (working interest and royalty interests) is identical in both tracts. Accordingly, there are no other "affected persons" to whom notice of this application must be provided.

A copy of Division Form C-104 with attached Halliburton Drilling Systems Survey Report that confirms the downhole location of the wellbore in the Drinkard and Fusselman formations is ready to be filed with the Division's District office in Hobbs as soon as this location is approved. Enclosed for your information as Exhibit D is a copy of this form and attached as Exhibit E is a copy of Division Form C-103 which reflects the recompletion of the well to the Drinkard formation. These forms correct the information previously filed with the Division by Home-Stake and will be filed as soon as the location of the well in the Drinkard formation is approved.

12

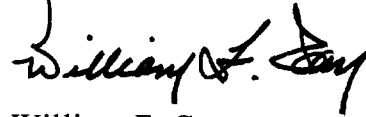
Administrative Application for Unorthodox Well Location

December 3, 2002

Page 3

A draft order approving this application is enclosed for your consideration.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is fluid and cursive, with a large initial "W" and a stylized "C".

William F. Carr

Attorney for Cortez Operating Company

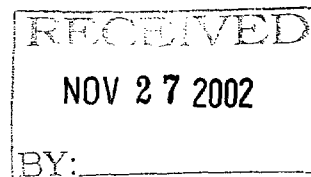
Enclosures:

Orientation Plat
Waiver Letters
Halliburton Report
Division form C-103
Division Form C-104

cc: Mr. Todd Laney
Cortez Operating Company

CORTEZ OIL & GAS, INC.





November 20, 2002

John H. Hendrix Corporation
110 North Marienfeld, Suite 400
Midland, TX 79701-4412

Re: Home-Stake Oil & Gas Company
Sarah Johnston Well No. 2-Unorthodox well location
Section 22, T22S, R37E
Lea County, New Mexico.

VIA FAX (915) 684-7317
AND OVERNIGHT MAIL
PH (915) 684-6631

Gentlemen:

Home-Stake Oil & Gas Company ("HSOG"), now known as Cortez Operating Company ("Cortez"), drilled the Sarah Johnston Well No. 2 to test the Fusselman Formation, South McCormack-Silurian Pool, at a surface location of 1,600 feet from the South line and 2,288 feet from the East line, and at an unorthodox bottomhole location 1,363 feet from the South line and 2,516 feet from the East line of Section 22, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico. The well was unsuccessful in the Fusselman and it has been recompleted in the Drinkard formation at a location 1,525 feet from the South line and 2,340 feet from the East line of said Section 22. This well location in the Drinkard formation is unorthodox toward the west and south lines of the dedicated 40-acre spacing unit (NW/4 SE/4) on which it is located. It has been determined, that, John H. Hendrix Corporation ("Hendrix") is an offset operator in the NE/4 SW/4 and is therefore affected by this location.

At this time, Cortez requests that Hendrix waive its objection to this location in the Fusselman and Drinkard formations by signing and dating a copy of this letter in the space below, and returning one executed copy of this letter to Cortez for further handling.

If you have questions concerning this well or application, please contact the undersigned, at (972) 781-6595, ext. 120. Your help in regard to this matter is most appreciated.

Sincerely,

Todd Laney, CPL
Land Manager

WAIVER OF OBJECTION:

John H. Hendrix Corporation, through its undersigned authorized representative, waives objection to the location of the Home-Stake Oil & Gas Company (now known as Cortez Operating Company) Sarah Johnston Well No. 2 in the Fusselman and Drinkard formations.

BY:

Name: Rennie H. Westbrook

Title: Vice President

Date: 11-25-02

District I
PO Box 1980, Hobbs, NM 88241-1980

District II

511 South First, Artesia, NM 88210

District III

1000 Rio Brazos Rd., Artec, NM 87410

District IV

2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources DepartmentOIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-104

Revised October 18, 1994

Instructions on back

Submit to Appropriate District Office

5 Copies

☐ AMENDED REPORT

I. REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT

Operator name and Address Home-Stake Oil & Gas Company 15 E. 5th Street, Suite 2800 Tulsa, Ok. 74103		OGRID Number 163123
Reason for Filing Code NW		
API Number 30 - 0 25-34611	Pool Name South McCormack, Silurian	Pool Code 45430
Property Code 23630	Property Name Sarah Johnston	Well Number 2

II. Surface Location

Oil or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South Line	Feet from the	East/West line	County
J	22	22S	37E		1600	South	2288	East	Lea

Bottom Hole Location

Oil or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	22	22S	37E		363	South	2516	East	Lea
Lea Code P	Producing Method Code F	Gas Connection Date 7/23/99	C-129 Permit Number N/A	C-129 Effective Date N/A	C-129 Expiration Date N/A				

III. Oil and Gas Transporters

Transporter OGRID	Transporter Name and Address	FOD	O/G	FOD ULSTR Location and Description
021778	Sunoco (R&M) 1004 N. Big Spring Midland, TX 79701	282 3631	O	UL'0' Sec 22-T22S-R37E Sarah Johnston #1 Tank Battery
009171	GPM Gas Corporation 4044 Penbrook Odessa, TX 79762	282 3632	G	UL'0' Sec 22-T22S-R37E Sarah Johnston #1 Tank Battery

IV. Produced Water

FOD	FOD ULSTR Location and Description
282 3633	Water Tank-Sarah Johnston #1 Tank Battery UL'0' Sec 22 T22s-R37E

V. Well Completion Data

Spud Date	Ready Date	TD	FBID	Perforations	DHC, DC, MC
5/6/99	7/23/99	7475	7205	6350-6493	N/A
Hole Size	Casing & Tubing Size	Depth Set	Stacks Count		
17 1/2"	13 3/8"	397'	440 SX		
11"	8 5/8"	3400'	800sx		
7 7/8"	5 1/2"	7472'	955/SX		
	2 7/8"	6305'	N/A		

VI. Well Test Data

Date New Oil	Gas Delivery Date	Test Date	Test Length	Tbg. Pressure	Org. Pressure
7/23/99	7/23/99	7/25/99	24 hrs	100#	0
Choke Size	Oil	Water	Gas	ACF	Test Method
20/64"	126 Bbls	25 Bbls	435 MCF	-	F

"I hereby certify that the rules 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:

Printed name:

Title:

Date:

Larry Tarwater

Production Engineer

7-26-99

Phone (918) 583-0178

OIL CONSERVATION DIVISION

Approved by: ORIGINAL SIGNED BY CHRIS WILLIAMS
DISTRICT I SUPERVISOR

Title:

Approval Date:

AUG 26 1999

* If this is a change of operator fill in the OGRID number and name of the previous operator

Previous Operator Signature

Printed Name

Title

Date

Submit 3 Copies To Appropriate District
Office
District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Ave., 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 and Natural Resources

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-103
Revised March 25, 1999

WELL API NO.
30-025-34611

5. Indicate Type of Lease
STATE ☐ FEE ☒

6. State Oil & Gas Lease No.
163123

7. Lease Name or Unit Agreement
Name:

Sarah Johnston

8. Well No.
2

9. Pool name or Wildcat
McCormack Silurian, South

SUNDRY NOTICES AND REPORTS ON WELLS

(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A
DIFFERENT RESERVOIR. USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH
PROPOSALS.)

1. Type of Well:
Oil Well ☒ Gas Well ☐ Other

2. Name of Operator
Home-Stake Oil & Gas Company

3. Address of Operator
2745 N. Dallas Parkway, Suite 220, Plano, Tx 75093

4. Well Location

Unit Letter J : 1600 feet from the South line and 2288 feet from the East line

Section 22 Township 22 South Range 37 East NMPM Lea County

10. Elevation (Show whether DR, RKB, RT, GR, etc.)
3351' GR 3369' KB

11. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:

PERFORM REMEDIAL WORK ☐ PLUG AND ABANDON ☐

TEMPORARILY ABANDON ☐ CHANGE PLANS ☒

PULL OR ALTER CASING ☐ MULTIPLE
COMPLETION ☐

OTHER: ☐

SUBSEQUENT REPORT OF:

REMEDIAL WORK ☐ ALTERING CASING ☐

COMMENCE DRILLING OPNS. ☐ PLUG AND
ABANDONMENT ☐

CASING TEST AND
CEMENT JOB ☐

OTHER: Plug Back to Drinkard formation ☒

12. Describe proposed or completed operations. (Clearly state all pertinent details, and give pertinent dates, including estimated date of
starting any proposed work). SEE RULE 1103. For Multiple Completions: Attach wellbore diagram of proposed completion or
recompilation.

6/23/99 Ran 5-1/2" Baker Model TV CIBP and set at 7225' and cap with 20' of cement.
Perforate 5-1/2" casing in Drinkard zone - 6350' - 6493'. Total 23 holes.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Rebecca E. Foster TITLE Engineering Tech. DATE 11/26/2002

Type or print name Rebecca E. Foster 972.781.6595 ext 129 Telephone No.
(This space for State use)

APPROVED BY _____ TITLE _____ DATE _____

Conditions of approval, if any:

EXHIBIT E

Cortez Operating Company
c/o Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504-2208

Attention: William F. Carr

Administrative Order NSL-_____

Dear Mr. Carr:

Reference is made to your application dated December 3, 2002 for an unorthodox gas well location for the Cortez Operating Company (formerly home-Stake Oil 7 Gas Company) Sarah Johnson Well No. 2 in the Drinkard formation, Drinkard Oil Pool, at an unorthodox oil well location 1525 feet from the South line and 2340 feet from the East line (Unit J) of Section 22, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico.

A 40-acre spacing and proration unit in the Drinkard formation comprising the NW/4 SE/4 of said Section 22 is dedicated to said well.

By authority granted me under the provisions of Rule 104.F(2) of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the New Mexico Oil Conservation Commission in Case 11,351 on January 18, 1996, the above-described unorthodox well location is hereby approved.

Sincerely,

Lori Wrotenbery
Director

cc: Oil Conservation Division - Hobbs
U. S. Bureau of Land Management - Carlsbad

CMD :
OG5JLST

ONGARD
INQUIRE ULSTR PRODUCTION AND AGREEMENT DATA

12/04/02 13:29:19
OGOWVJ -TPE3
PAGE NO: 1

Sec : 22 Twp : 22S Rng : 37E UL: J Lot-Idn :
Acreage : 40.00 Bene Grp : Seismic Permit :
Lease Number : NO ACT IVE Expr Dte :
Lessee :
Comm Agr Names :

000000

Unit Agr Names :
LANGLIE MATTIX PENROSE SAND UNIT

S	API Num	Status
30	025 10416	A
30	025 34611	A

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06
PF07 BKWD	PF08 FWD	PF09	PF10	PF11	PF12

CMD :
OG6CLOG

ONGARD
C105-WELL COMPLETION OR RECOMP CASING LOG

12/04/02 13:39:29
OGOWVJ -TPE3

OGRID Identifier : 817 ANADARKO PETROLEUM CORP
Prop Identifier : 1328 LANGLIE MATTIX PENROSE SAND UNIT
API Well Identifier : 30 25 10414 Well No : 001
Surface Locn - UL : N Sec : 22 Twp : 22S Range : 37E Lot Idn :
Multiple comp (S/M/C): S TVD Depth (Feet) : 99999 MVD Depth (Feet):
Spud Date : P/A Date :
Casing/Linear Record:

S Size (inches)	Grade Weight (lb/ft)	Depth(ft) Top-Liner	Depth(ft) Bot-Liner	Hole Size (inches)	Cement (Sacks)	TOC (feet)	Code
99.000	99.0	99999.0	99999.0	99.000	9999	99999	C

E0043: Record found; Authority denied to MODIFY/ADD

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06 CONFIRM
PF07	PF08	PF09 COMMENT	PF10 TLOG	PF11	PF12

CMD :
OG6CLOG

ONGARD
C105-WELL COMPLETION OR RECOMP CASING LOG

12/04/02 13:40:25
OGOWVJ -TPE3

OGRID Identifier : 13300 LEWIS B BURLESON INC
Prop Identifier : 29249 J V BAKER
API Well Identifier : 30 25 10415 Well No : 009
Surface Locn - UL : N Sec : 22 Twp : 22S Range : 37E Lot Idn :
Multiple comp (S/M/C): S TVD Depth (Feet) : 6450 MVD Depth (Feet): 6450
Spud Date : P/A Date :
Casing/Linear Record:

S Size (inches)	Grade Weight (lb/ft)	Depth(ft) Top-Liner	Depth(ft) Bot-Liner	Hole Size (inches)	Cement (Sacks)	TOC (feet)	Code
13.375	44.5	0.0	200.0	17.000	200		C
8.625	28.0	0.0	2790.0	11.000	1000		C
5.500	14.0	0.0	6450.0	7.875	450		C

E0043: Record found; Authority denied to MODIFY/ADD

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06 CONFIRM
PF07	PF08	PF09 COMMENT	PF10 TLOG	PF11	PF12

CMD :
OG6IWCM

ONGARD
INQUIRE WELL COMPLETIONS

12/04/02 13:40:41
OGOWVJ -TPE3

API Well No : 30 25 10415 Eff Date : 09-19-2001 WC Status : P
Pool Idn : 6660 BLINEBRY OIL AND GAS (OIL)
OGRID Idn : 25504 YARBROUGH OIL LP
Prop Idn : 16403 J V BAKER

Well No : 009
GL Elevation: 3352

	U/L	Sec	Township	Range	North/South	East/West	Prop/Act(P/A)
B.H. Locn	: N	22	22S	37E	FTG 766 F S	FTG 2086 F W	A
Lot Identifier:							
Dedicated Acre:							
Lease Type	: P						
Type of consolidation	(Comm, Unit, Forced Pooling - C/U/F/O) :						

M0025: Enter PF keys to scroll

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06
PF07	PF08	PF09	PF10 NEXT-WC	PF11 HISTORY	PF12 NXTREC

CMD :
OG6IWCM

ONGARD
INQUIRE WELL COMPLETIONS

12/04/02 13:42:35
OGOWVJ -TPE3

API Well No : 30 25 10407 Eff Date : 03-18-1994 WC Status : A
Pool Idn : 37240 LANGLIE MATTIX;7 RVRS-Q-GRAYBURG
OGRID Idn : 817 ANADARKO PETROLEUM CORP
Prop Idn : 1328 LANGLIE MATTIX PENROSE SAND UNIT

Well No : 002
GL Elevation: 99999

	U/L	Sec	Township	Range	North/South	East/West	Prop/Act (P/A)
B.H. Locn	: K	22	22S	37E	FTG 1980 F S	FTG 1980 F W	P
Lot Identifier:							
Dedicated Acre:							40.00
Lease Type							: P
Type of consolidation							(Comm, Unit, Forced Pooling - C/U/F/O) :

M0025: Enter PF keys to scroll

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06
PF07	PF08	PF09	PF10 NEXT-WC	PF11 HISTORY	PF12 NXTREC

CMD :
OG6IWCM

ONGARD
INQUIRE WELL COMPLETIONS

12/04/02 13:44:06
OGOWVJ -TPE3

API Well No : 30 25 10411 Eff Date : 10-15-1991 WC Status : S
Pool Idn : 10260 CARY;MONTROYA
OGRID Idn : 12024 JOHN H HENDRIX CORP
Prop Idn : 5136 WILL CARY

Well No : 006
GL Elevation: 3342

	U/L	Sec	Township	Range	North/South	East/West	Prop/Act(P/A)
B.H. Locn	: K	22	22S	37E	FTG 1980 F S	FTG 2130 F W	A
Lot Identifier:							
Dedicated Acre:							40.00
Lease Type							: P
Type of consolidation							(Comm, Unit, Forced Pooling - C/U/F/O) :

M0025: Enter PF keys to scroll

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06
PF07	PF08	PF09	PF10 NEXT-WC	PF11 HISTORY	PF12 NXTREC

CMD :
OG6IWCM

ONGARD
INQUIRE WELL COMPLETIONS

12/04/02 13:29:51
OGOWVJ -TPE3

API Well No : 30 25 34611 Eff Date : 12-18-2000 WC Status : P
Pool Idn : 19190 DRINKARD
OGRID Idn : 163123 HOME-STAKE OIL & GAS CO (THE)
Prop Idn : 23630 SARAH JOHNSTON

Well No : 002
GL Elevation: 3351

	U/L	Sec	Township	Range	North/South	East/West	Prop/Act(P/A)
B.H. Locn	: J	22	22S	37E	FTG 1600 F S	FTG 2288 F E	A
Lot Identifier:							
Dedicated Acre:							40.00
Lease Type							: P
Type of consolidation (Comm, Unit, Forced Pooling - C/U/F/O) :							

M0025: Enter PF keys to scroll

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06
PF07	PF08	PF09	PF10 NEXT-WC	PF11 HISTORY	PF12 NXTREC



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Betty Rivera
Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

Oil Conservation Division
1220 S. Francis Drive
Santa Fe, NM 87505

RE: Proposed:

MC

DHC

NSL

NSP

SWD

WFX

PMX

BHL

Gentlemen:

I have examined the application for the:

Cortez Operating Co Sarah Johnson # 2-J, 22-225-37e
Operator Lease & Well No. Unit S-T-R API# 30-025-34611

and my recommendations are as follows:

[Handwritten signature: OK RZ]

Yours very truly,

[Handwritten signature: Chris Williams]

Chris Williams
Supervisor, District 1