

PENROC Oil Corporation

P.O. Box: 2769, 1515 Calle Sur, Hobbs, NM 88241-2769.

Phone: (505) 492-1236

Fax : (505) 492-1237

mym merch@hotmail.com

June 19, 2005

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

Re: Surface Commingling of State Leases
Sections 11 & 14, T-10-S, R-32-E
Lea County, New Mexico

Attn: Mr. David Catanach

Dear David:

Penroc Oil Corporation is requesting permission to surface commingle the State BL, New Mexico A State and New Mexico State 1 & 2 wells located in the captioned sections. All three leases have common royalty interest, the State BL and New Mexico A State are 100% Penroc owned and the New Mexico State 1 & 2 is 56.25% Penroc and have two non-operated owners as shown below.

All wells are stripper and it makes economic sense to commingle the production using the State BL facilities. Following is the data on the wells on the commingling request:

Operator: Penroc Oil Corporation

OGRID #: 017213

Well Names: State BL 1, 2 & 3 in Section 14/New Mexico A State 1 & 2 and New Mexico State 1 & 2 in Section 11.

State Lease Nos. E-131 & E-9713

API #s: 30-025-00019, 30-025-20626, 30-025-20627, 30-025-24769, 30-025-27952, 30-025-20278, & 30-025-00014

The leases will be surface commingled as shown in the attached sketch.

Working Interest:

State BL (100% Penroc), NM A State (100% Penroc), New Mexico State (56.25% POC, Frederick Production Company (25%) and Jackal Oil Inc. (18.75%)

Royalty Interest: 12.5% State of New Mexico

Field: Mescalero San Andres; Producing Zones: San Andres

A copy of this application is being sent to New Mexico State Land Office and all working interest owners. An early approval of the above will be greatly appreciated.

Exploration & Production Since 1961

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Application to Surface Commingle
State BL, NM A State, and New Mexico 1 & 2
Sections 11 and 14, T-10-S, R-32-E
Lea County, New Mexico

Sincerely,

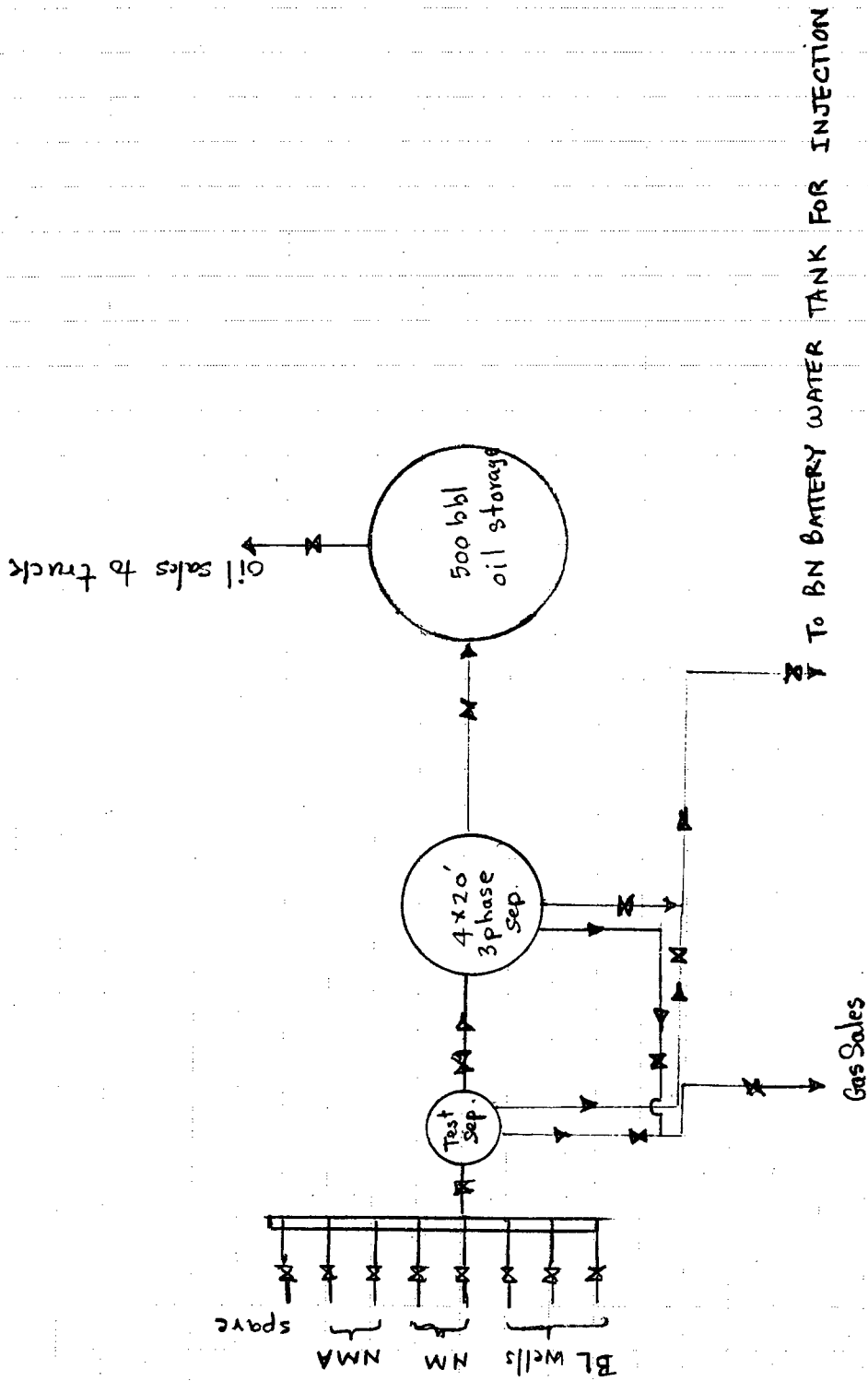
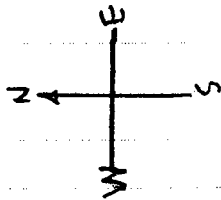

M. Y. (Merch) Merchant
President

CC: New Mexico State Land Office
Jackal Oil, Inc.
Frederick Production Company
NMOCD-Hobbs Office

P.S. Wells will be tested for production once a month for allocation.

Petroc Oil Corporation
 State BL, NM A State, New Mexico 1 & 2
 Sec. 11 & 14, T-10-S, R-32-E
 Lea County, NM

COMINGLED AT BATTERY (SURFACE)



Catanach, David, EMNRD

From: mohammed merchant [mymerch@hotmail.com]
Sent: Tuesday, June 28, 2005 11:57 AM
To: Catanach, David, EMNRD
Cc: resosa21@yahoo.com; jbuhalts@hotmail.com
Subject: RE: Application

Thanks David....All the money...

Sorry for a late response due to sub sea lines down around Singapore (I hear). We will meter the NM 1 & 2 and I will file the form required on my return, hopefully on the 4th. MERCH

>From: "Catanach, David, EMNRD" <david.catanach@state.nm.us>
 >To: <mymerch@hotmail.com>
 >Subject: Application
 >Date: Tue, 28 Jun 2005 08:31:36 -0600
 >
 >Merch,
 >
 >All is well in Santa Fe. We're trying to keep up with all you industry
 >guys making all
 >that money. I looked at your application, and we have a couple of
 >problems.
 >First of all you need to file a Form C-107-B, which is the form for
 >surface commingling
 >when there is diverse ownership. Secondly, when there is diverse
 >ownership between
 >the leases, you are required to meter the production prior to
 >commingling. So, in
 >your case, you would have to meter the production from the State 1 & 2
 >separately
 >from the State BL and New Mexico A State. I would be required by rule
 >to issue an
 >administrative permit that had this metering requirement.
 >
 >If, on the other hand you chose to go to hearing, and as long as no
 >interest owner
 >objected, we could approve it the way you have proposed.
 >
 >Let me know how you want to proceed with this application.
 >
 >David
 >
 >Confidentiality Notice: This e-mail,including all attachments is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review,use,disclosure or distribution is prohibited unless specifically provided under the New Mexico Inspection of Public Records Act. If you are not the intended recipient, please contact the sender and destroy all copies of this message. -- This email has been scanned by the Sybari - Antigen Email System.

6/28/2005

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.

Print or Type Name _____	Signature _____	Title _____	Date _____
e-mail Address _____			

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

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107-B
Revised June 10, 2003

OIL CONSERVATION DIVISION

1220 S. St Francis Drive
Santa Fe, New Mexico 87505

Submit the original
application to the Santa Fe
office with one copy to the
appropriate District Office.

APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)

OPERATOR NAME: Penroc Oil Corporation
OPERATOR ADDRESS: P.O. Box 2769 Hobbs NM 88241-2769
APPLICATION TYPE:

☐ Pool Commingling ☒ Lease Commingling ☐ Pool and Lease Commingling ☐ Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE: ☐ Fee ☒ State ☐ Federal

Is this an Amendment to existing Order? ☐ Yes ☒ No If "Yes", please include the appropriate Order No. _____
Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling
☒ Yes ☐ No Have been sent a copy by letter dated June 19, 2005

(A) POOL COMMINGLING
Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production		Calculated Value of Commingled Production	Volumes

- (2) Are any wells producing at top allowables? ☐ Yes ☐ No
(3) Has all interest owners been notified by certified mail of the proposed commingling? ☐ Yes ☐ No.
(4) Measurement type: ☐ Metering ☐ Other (Specify)
(5) Will commingling decrease the value of production? ☐ Yes ☐ No If "yes", describe why commingling should be approved

2005

(B) LEASE COMMINGLING
Please attach sheets with the following information

- (1) Pool Name and Code. Mescalero San Andres 45990
(2) Is all production from same source of supply? ☒ Yes ☐ No
(3) Has all interest owners been notified by certified mail of the proposed commingling? ☒ Yes ☐ No
(4) Measurement type: ☒ Metering ☐ Other (Specify)

JUL

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PM

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(C) POOL and LEASE COMMINGLING
Please attach sheets with the following information

- (1) Complete Sections A and E.

(D) OFF-LEASE STORAGE and MEASUREMENT
Please attached sheets with the following information

- (1) Is all production from same source of supply? ☐ Yes ☐ No
(2) Include proof of notice to all interest owners.

(E) ADDITIONAL INFORMATION (for all application types)
Please attach sheets with the following information

- (1) A schematic diagram of facility, including legal location. Attached letter dated June 19, 2005
(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved. Attached
(3) Lease Names, Lease and Well Numbers, and API Numbers. Attached letter dated June 19, 2005

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

SIGNATURE: M. Y. (Merch) Merchant TITLE: President

DATE: 7/5/04

TYPE OR PRINT NAME M. Y. (Merch) Merchant

TELEPHONE NO. (505) 492-1236

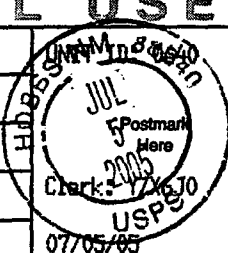
E-MAIL ADDRESS: mymerch@hotmail.com

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7004 0750 0003 4811 0020

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Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42

Sent To: *Frederick Production Co.*
 Street, Apt. No., or PO Box No.: *15710 NW St Andrews Drive*
 City, State, ZIP+4: *Portland, OR 97229*

PS Form 3800, June 2002 See Reverse for Instructions



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Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.42

Sent To: *JACKAL OIL*
 Street, Apt. No., or PO Box No.: *307 West 7th, Suite 1718*
 City, State, ZIP+4: *Ft Worth, TX 76102*

PS Form 3800, June 2002 See Reverse for Instructions

