



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL DISTRICT OFFICE
1717 West Second Street
Roswell, New Mexico 88202



IN REPLY REFER TO:
NMNM94487X
3180 (06200)

FEB 29 1996



Santa Fe Energy Resources, Inc.
Attention: Mr. Joe Hammond
550 W. Texas, Suite 1330
Midland, TX 79701

Gentlemen:

Your application of February 20, 1996, filed with the BLM requests the designation of the Tomcat Unit area, embracing 3840.00 acres, more or less, Lea County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended.

Pursuant to unit plan regulations 43 CFR 3180, the land requested as outlined on your plat marked Exhibit A, Santa Fe Energy Resources, Inc., Tomcat Unit, Lea County, New Mexico, is hereby designated as a logical unit area and has been assigned No. NMNM94487X. This designation is valid for a period of one year from the date of this letter.

The unit agreement submitted for the area designated should provide for a well to test the Atoka Formation or to a depth of 14,050 feet, whichever is the lesser depth. Your proposed use of the Form of Agreement for Unproved Areas will be accepted with the modifications to Sections 9, 11, 12, and 17B as shown on the enclosed pages. Corrections that need to be made to Exhibits A and B are shown in red on the enclosed Exhibits.

If conditions are such that further modification of said standard form is deemed necessary, two copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

In the absence of any type of land requiring special provisions or any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

When the executed agreement is transmitted to the BLM for final approval, include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the reprint of the aforementioned form.

NEW MEXICO
OIL CONSERVATION DIVISION

EXHIBIT 4A

CASE NO. 11460

DWR	JWH
DCB	SRH
DRW	VCH
GEW	MUM
RAR	DSS
PJR	FILE
EFW	

Inasmuch as this unit agreement involves State and Fee lands, we are sending a copy of the letter to the Commissioner of Public Lands and the NMOCD. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the state.

Sincerely,

A handwritten signature in cursive script that reads "Tony L. Ferguson".

Tony L. Ferguson
Assistant District Manager,
Minerals Support Team

Enclosures

*Corrections to be made
are shown in red*

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
Schedule Showing All Lands and Leases
Within the TONGAT UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
<u>Federal Lands</u>							
<u>T-23-S, R-32-E, Lea County, New Mexico</u>							
2-1-	Sec. 17: NE/4	160.00	NM-62223 HBP	12.5% USA	Est. of Lillie M. Yates	None	Est. of Lillie M. Yates 100%
4-2-	Sec. 17: SE/4	160.00	NM-86152 4-1-96 3-31-96	12.5% USA	SFER, Inc.	Mitchell En. Cp. J. Torma P. Barvis J. Gellgey M. Wheeler	SFER, Inc. Penwell En. Inc. 50%
10-3-	Sec. 15: SW/4, S/2NW/4, and NW/4NW/4	280.00	NM-93642 9-1-2005 8-31-2005	12.5% USA	SFER, Inc.	None	SFER, Inc. 100%
8-4-	Sec. 15: E/2 and NE/4NW/4	360.00	NM-84728 5-31-97	12.5% USA	Permian Hunter Cp. <i>Strata Production Co.</i>	Strata Prod. Co. J. G. McClellan Rankin Inv. Corp. Terry S. Kramer Wade Carrigan Robert Eaton Permian B. Inv. Cp. Mitchell Expl. Cp. Worrall Inv. Cp. Mark B. Murphy Ann M. Ezzeil Murphy br. Trd. Permian Hunter Cp.	Permian Hunter Cp. 98.8% Strata Prod. Co. 1.2%

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
Schedule Showing All Lands and Lessees
Within the TOMCAT UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMB., R	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
Federal Lands								
T-23-S, R-32-E, Lea County, New Mexico								
34-5	Sec. 20: SW/4SE/4	40.00	NM-77063 HBP	12.5% USA	Yates Pet. Corp./10% Yates Pet. Corp. Yates Drilling Co./30% Yates Drilling Co. Abco Pet. Corp./30% Abco Pet. Corp. MYCO Ind. Inc./30% MYCO Ind. Inc.	1.25% 3.75% 3.75% 3.75%	Yates Pet. Corp. Yates Drilling Co. Abco Pet. Corp. MYCO Ind. Inc.	10% 30% 30% 30%
5-6	Sec. 20: NE/4, N/2SE/4, SE/4SE/4 Sec. 21: W/2, W/2E/2, E/2SE/4 Sec. 22: SW/4	1000.00	NM-86153 4-1-96 3-31-96	12.5% USA	SFER, Inc. Mitchell En. Cp. J. Torma P. Barwis J. Geigey M. Wheeler	4.75% 3% 3% .25% .125%	SFER, Inc. Pennwell En. Inc.	50% 50%
7	Sec. 22: NW/4 and E/2	480.00	NM-88163 2-28-97	12.5% USA	Strata Prod. Co. None		Strata Prod. Co.	100%
38-8	Sec. 28: NW/4	160.00	NM-77063 HBP	12.5% USA	Yates Pet. Corp./10% Yates Pet. Corp. Yates Drill. Co./30% Yates Drilling Co. Abco Pet. Corp./30% Abco Pet. Corp. MYCO Ind. Inc./30% MYCO Ind. Inc.	1.25% 3.75% 3.75% 3.75%	Yates Pet. Corp. Yates Drilling Co. Abco Pet. Corp. MYCO Ind. Inc.	10% 30% 30% 30%
9	Sec. 28: NE/4	160.00	NM-62225 8-31-97	12.5% USA	Meridian Oil, Inc. Schutz Abet. Co. P. L. White DF. Hugus, Jr.	.45% 1.35% 5.00%	Meridian Oil, Inc. J.T. Jennings First Roswell Co. Ltd. T.E. Jennings	75.0% 12.5% 7.5% 5.0%

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
 Schedule Showing All Lands and Leases
 Within the TOMCAT UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
<u>Federal Lands</u>							
<u>T-23-S, R-32-E, Lea County, New Mexico</u>							
1	Sec. 8: NE/4	160.00	NM-18848 HBP	12.5% USA	Texaco E & P, Inc	R.D. Wharton First Sec. Bk. Utah H.B. Caloon Inv. Co. F. Andrew Grooms R.M. Richardson M. E. Schertz R.R. Hinkle III	Texaco E & P, Inc. 100%
						62% 1.25% 1.25% .62% .25% .50% .50%	
6	Sec. 8: SE/4	160.00	NM-86924 9-1-96 8-31-96	12.5% USA	Mitchell En. Cp.	Mitchell En. Cp. J. Toma P. Barwis J. Geilgey M. Wheeler	Meridian Oil, Inc. Penwell En, Inc. 50%
						4.75% 3% .3% .25% .125%	
<u>Total Federal Lands - 3120.00 Acres</u>							
<u>State Lands</u>							
<u>T-23-S, R-32-E, Lea County, New Mexico</u>							
11	Sec. 16: All	640.00	V-4340 4-1-99	16.67% State	SFER, Inc.	Strata Prod.Co. P. T. Balog, G. Balog Hutchings Oil Co. Browning Inv. Co. Robert Chase Centennial V. F. Walker, Trustee Gross Family Ltd. Pp. Robert J. Leonard, Tle. Leonard Res. Inv. Cp. Dr. M. J. Norton III Scott Expl., Inc.	SFER, Inc. 100%
						.49% 16% .08% .16% .08% .16% 16% 16% .08% .08% 1.49%	

EXHIBIT "B"
SCHEDULE OF OWNERSHIP
 Schedule Showing All Lands and Leases
 Within the TOMCAT UNIT
LEA COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
<u>State Lands</u>							
<u>T-23-S, R-32-E, Lea County, New Mexico</u>							
<u>12</u> 13	Sec. 21: SE/4NE/4	40.00	V-4351 5-1-99	16.67% State	SFER, Inc.	Featherstone Dev. Co. 1.44% O. F. Featherstone, II 1.44% C. Michael Brown 1.44%	SFER, Inc. 100%
<u>Total State Lands - 680.00 Acres</u>							
<u>Fee Lands</u>							
<u>T-23-S, R-32-E, Lea County, New Mexico</u>							
<u>13</u> 14	Sec. 21: NE/4NE/4	40.00	C. F. Jamer, etux 3-14-99	18.75% Fee	SFER, Inc.	Mitchell En. Co. 1.625% J. Torma .3% P. Barwis .3% J. Gellgey .25% M. Wheeler .125%	SFER, Inc. 50% Penwell En. Inc. 50%
<u>Total Fee Lands - 40.00 Acres</u>							

RECAPITULATION:

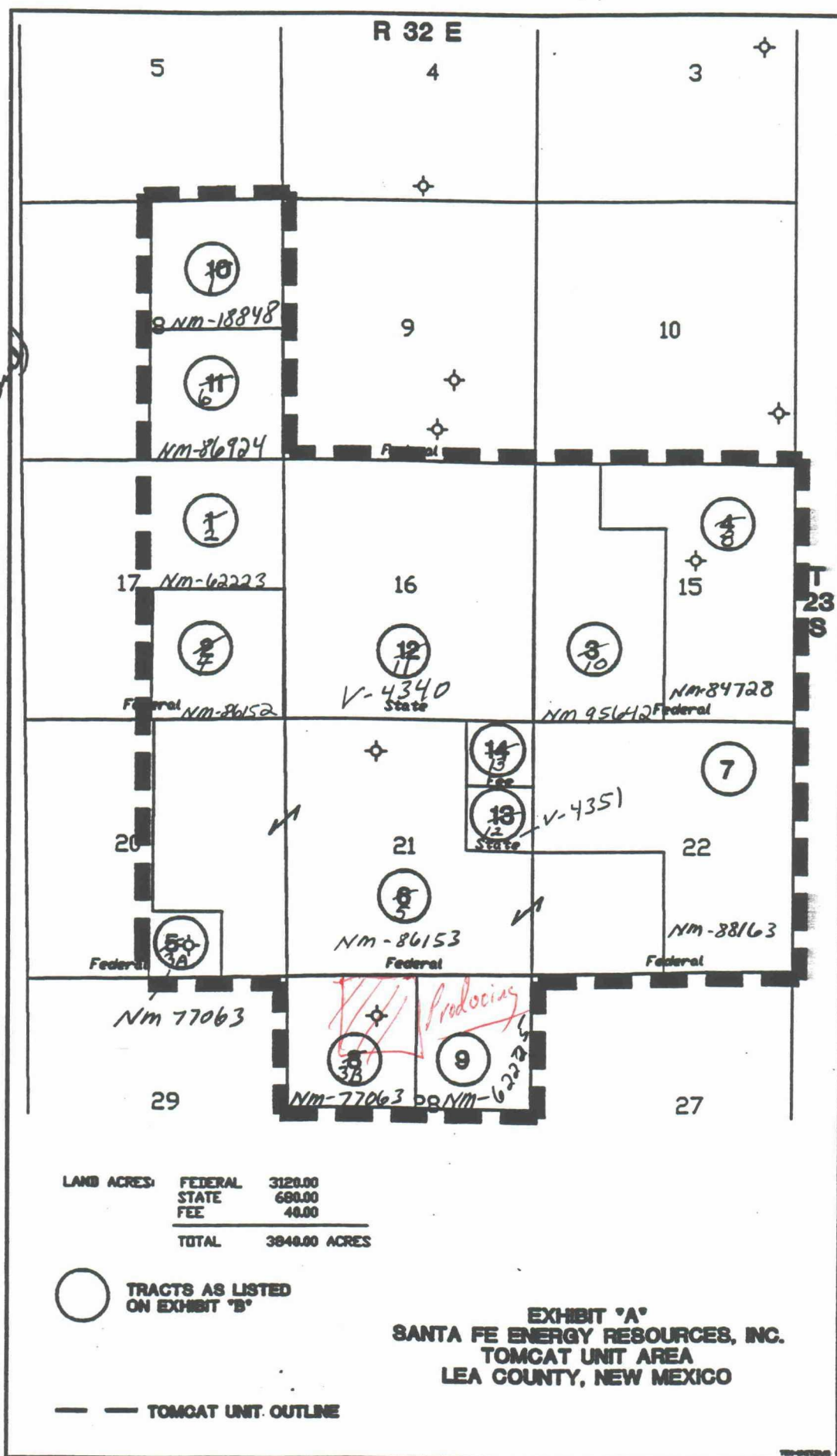
Federal Lands	3120.00	or	81.25000%
State Lands	680.00	or	17.70833%
Fee Lands	<u>40.00</u>	or	<u>1.04167%</u>
Total	3840.00		100.00000%

EXHIBIT "C"

SCHEDULE OF TRACT PARTICIPATION

Within the TOMCAT UNIT
LEA COUNTY, NEW MEXICO

TRACT	ACRES	PERCENTAGE OF PARTICIPATION
1	160	4.16667%
2	160	4.16667%
3	280	7.29166%
4	360	9.37500%
5	40	1.04167%
6	1000	26.04166%
7	480	12.49999%
8	160	4.16667%
9	160	4.16667%
10	160	4.16667%
11	160	4.16667%
12	640	16.66666%
13	40	1.04167%
14	40	1.04167%
TOTALS	3840 ACRES	100.00000%



this section.

~~The AO may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.~~

² 9a. Multiple well requirements. Notwithstanding anything in this unit agreement to the contrary, except Section 25, UNAVOIDABLE DELAY, _____ wells shall be drilled with not more than 6 months time elapsing between the completion of the first well and commencement of drilling operations for the second well and with not more than 6 months time elapsing between completion of the second well and the commencement of drilling operations for the third well, ... regardless of whether a discovery has been made in any well drilled under this provision. Both the initial well and the second well must be drilled in compliance with the above specified formation or depth requirements in order to meet the dictates of this section; and the second well must be located a minimum of _____ miles from the initial well in order to be accepted by the AO as the second unit test well, within the meaning of this section. The third test well shall be diligently drilled, at a location approved by the AO, to test the _____ formation or to a depth of _____ feet, whichever is the lesser, and must be located a minimum of _____ miles from both the initial and the second test wells. Nevertheless, in the event of the discovery of unitized substances in paying quantities by any well, this unit agreement shall not terminate for failure to complete the _____ well program, but the unit area shall be contracted automatically, effective the first day of the month following the default, to eliminate by subdivisions (as defined in Section 2(e) hereof) all lands not then entitled to be in a participating area.²

222
22.10.11
22.7
Until the establishment of a participating area, the failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the AO;

10. ~~PLAN OF FURTHER DEVELOPMENT AND OPERATION.~~ Within 6 months after completion of a well capable of ~~producing unitized substances in paying quantities,~~ the Unit Operator shall submit for the approval of the AO an acceptable plan of development and operation for the unitized land which, when

²Provisions to be included only when a multiple well obligation is required.

Department of the Interior
GEOLOGICAL SURVEY
CONSERVATION DIVISION MANUAL

Onshore Oil and Gas Program Series

Agreements and Obligations

Chapter 1 - Unitization (Exploratory)

645.1.3W

- (4) Approved form of unit agreement circulated to interest owners for execution;
- (5) Executed agreement submitted to the Area Supervisor for review and forwarding with recommendations to Bureau of Indian Affairs; and
- (6) Final approval by BIA (Indian owners should have approval prior to submission of executed agreement). If Federal lands are also involved, BIA returns approved agreement to Supervisor for his approval which should determine the effective date of the agreement.

X. Handling Existing Wells

At times, producing or producible oil or gas wells may be present within the area proposed for unitization. When such wells indicate a discovery of questionable significance, the following paragraph should be added to section 11, "Participation After Discovery" of the model form of unit agreement for unproved Areas (Exhibit 4):

"Determination as to whether a well completed within the unit area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as the result of the completion of a well for production in paying quantities in accordance with Section 9 hereof."

In unusual cases, where existing wells indicate that a significant discovery of oil or gas has been made on land proposed for unitization but where additional exploration and development is necessary, an initial participating area based on the information from such wells may be established effective as of the effective date of the Unit agreement. However, the participating area application will not be acted upon until the initial test well has been drilled and completed as a paying unit well as required by section 9 of the unit agreement. In this situation, BLM should be advised not to terminate any leases which would otherwise expire since all committed leases would automatically be extended on the effective date of the participating area. Section 9 may also be modified to require concurrent submission of a Plan of Operations and Development.

Please add this paragraph to Sec. 11

production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by Unit Operator and approved by the AO. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the AO as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests. Royalties due the United States shall be determined by the AO and the amount thereof shall be deposited, as directed by the AO, until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the AO, that a well drilled under this agreement is not capable of production of unitized substances in paying quantities and inclusion in a participating area of the land on which it is situated is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations that has been approved by the AO, or unavoidably lost shall be

deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE. (a) The Unit Operator shall take such measures as the AO deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO.

Revise
Sec. 17B

(b) Whenever a participating area approved under section 11 of this agreement contains unleased Federal lands, the value of 12½ percent of the production that would be allocated to such Federal lands under section 12 of this agreement, if such lands were leased, committed, and entitled to participation, shall be payable as compensatory royalties to the Federal Government. Parties to this agreement holding working interests in committed leases within the applicable participating area shall be responsible for such compensatory royalty payment on the volume of production reallocated from the unleased Federal lands to their unitized tracts under section 12. The value of such production subject to the payment of said royalties shall be determined pursuant to 30 CFR part 206. Payment of compensatory royalties on the production reallocated from unleased Federal land to the committed tracts within the participating area shall fulfill the Federal royalty obligation for such production, and said production shall be subject to no further royalty assessment under section 14 of this agreement. Payment of compensatory royalties as provided herein shall accrue from the date the committed tracts in the participating area that includes unleased Federal lands receive a production allocation, and shall be due and payable monthly by the last day of the calendar month next following the calendar month of actual production. If leased Federal lands receiving a production allocation from the participating area become unleased, compensatory royalties shall accrue from the date the Federal lands become unleased. Payment due under the provision shall end when the unleased Federal tract is leased or when production of unitized substances ceases within the participating area and the participating area is terminated, whichever occurs first.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement and without limiting the generality of the foregoing, all leases.



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

(505) 827-5760
FAX (505) 827-5766

March 6, 1996

Santa Fe Energy Resources, Inc.
550 West Texas, Suite 130
Midland, Texas 79701

Attn: Mr. Joe Hammond

Re: Preliminary Approval
Proposed Tomcat Unit Agreement
Lea County, New Mexico

NEW MEXICO
OIL CONSERVATION DIVISION

EXHIBIT **4B**

CASE NO. 11460

Dear Mr. Hammond:

We have reviewed the unexecuted copy of the unit agreement which you have submitted for the proposed Tomcat Unit Area, Lea County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands, who has this date granted preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short-term leases. Also, any well commenced which penetrates its objective horizon prior to the effective date of the agreement will not be construed as the initial test well.

When submitting your agreement for final approval, please provide the following:

1. Application for final approval by the Commissioner setting forth tracts that have been committed and the tracts that have not been committed.
2. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged by a notary, and one set must contain original signatures.
3. Order of the New Mexico Oil Conservation Division. Our approval will be conditioned upon subsequent favorable approval by the New Mexico Oil Conservation Division.

Santa Fe Energy Resources, Inc.

March 6, 1996

Page 2

4. Certificate of Determination from the Bureau of Land Management. Our approval will be subject to like approval by the Bureau of Land Management.
5. Two copies of the Unit Agreement and one copy of the Unit Operating Agreement.

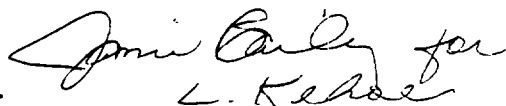
Please submit a filing fee in the amount of \$240.00.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY:


LARRY KEHOE, Director
Oil, Gas and Minerals Division
(505) 827-5744

RP/LK/cpm

Enclosure

cc: Reader File

OCD--Attention: Mr. Michael Stogner
BLM--Attention: Mr. Armando Lopez
Commissioner's File