

UNITED STATES **OCD-HOBBS**
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENTFORM APPROVED
OMB No. 1004-0137
Expires: March 31, 2007**SUNDRY NOTICES AND REPORTS ON WELLS****Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals.****SUBMIT IN TRIPLICATE- Other instructions on reverse side.**

1. Type of Well <input checked="" type="checkbox"/> Oil Well <input type="checkbox"/> Gas Well <input type="checkbox"/> Other	5. Lease Serial No. NM 96248
2. Name of Operator PENROC OIL CORPORATION	6. If Indian, Allottee or Tribe Name
3a. Address 1515 Calle Sur Hobbs, NM 88240	7. If Unit or CA/Agreement, Name and/or No.
3b. Phone No. (include area code) (505) 492-1236	8. Well Name and No. Barnes Federal No. 1
4. Location of Well (Footage, Sec., T., R., M., or Survey Description) 330' FNL 1650' FEL	9. API Well No. 30.025.21759
	10. Field and Pool, or Exploratory Area Bough San Andres
	11. County or Parish, State Lea NM

12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other Horizontal
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

Depending on Rig and associated availability, waiting thru prairie chicken season we plan to do the following:

1. AOH w/ production Equipment
2. Set CCBP and prepare KOP @ 4540'
3. Build curve (3 days) and drill horizontally approx 1600' West to a Bottom hole location 4775' (TD).
4. RD Drilling Rig - 5. RU Completion Unit & Run tubing and pkr.
5. Swab test to tank for production.
6. Acidize (1) BOP during all operations
7. Put well on production.

Note: All steel pits to be used.

14. I hereby certify that the foregoing is true and correct	
Name (Printed/Typed) M. Y. (Merch) Merchant	Title President
Signature <i>[Signature]</i>	Date 2/10/2006

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.	Title Office	APPROVED Date FEB 1, 2006
Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.		LEO BABYAK PETROLEUM ENGINEER

(Instructions on page 2)

District I

1625 N. French Dr., Hobbs, NM 88240

District II

1301 W. Grand Avenue, 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 & Natural Resources Department
OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-102

Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-025-21759	² Pool Code 72680	³ Pool Name Bough San Andres (gas)
⁴ Property Code 27862	⁵ Property Name Barnes Federal	⁶ Well Number 1
⁷ OGRID No. 017213	⁸ Operator Name Penroc Oil Corporation	⁹ Elevation 4113 KB

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
cf	24	9S	35E		330	North	1650	East	Lea

¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
B	24	9S	35E		330	North	3250	East	Lea

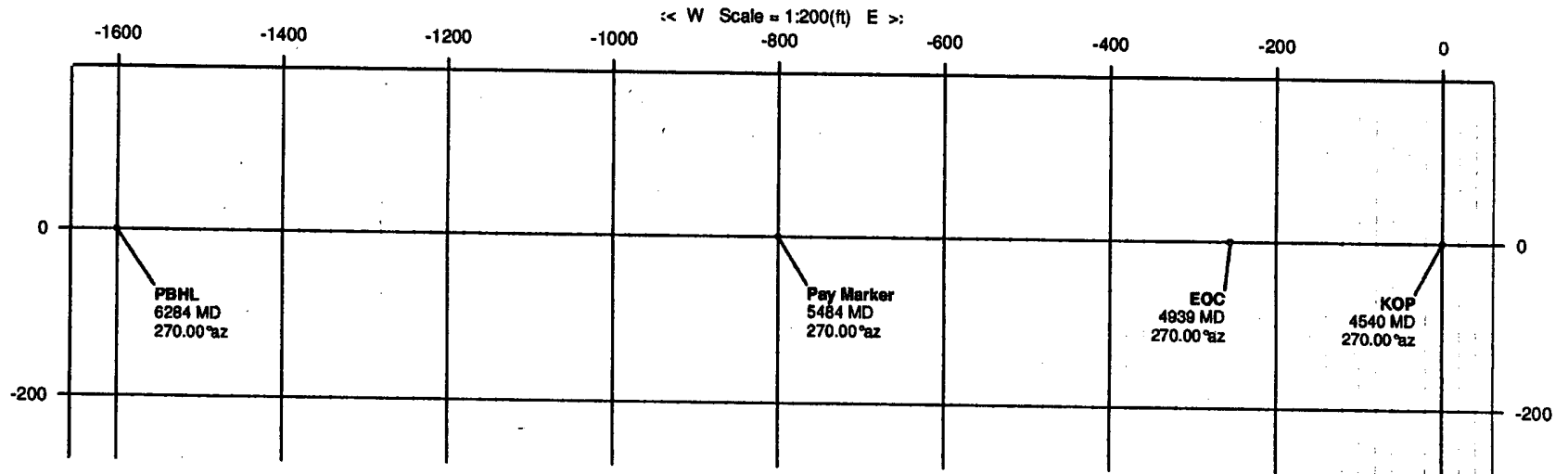
¹² Dedicated Acres 280	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
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No allowable will be assigned to this completion until all interests have been consolidated or a non-standard unit has been approved by the division.

¹⁶ 	¹⁷ OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Signature _____ Date 07/05/06 M. Y. (Merch) Merchant Printed Name _____
	¹⁸ SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. ON FILE Date of Survey _____ Signature and Seal of Professional Surveyor: _____ ON FILE Certificate Number _____

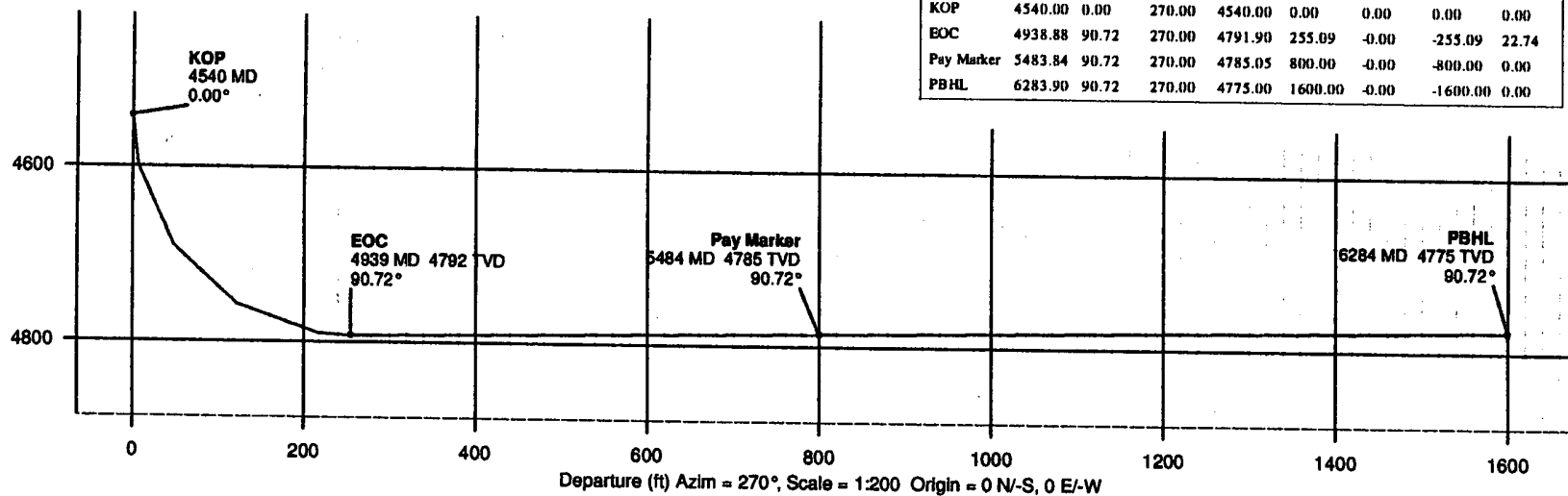
Penroc Oil

WELL Penroc #1 Barnes Fed		FIELD Lea County, NM		STRUCTURE Penroc #1 Barnes Fed	
Magnetic Parameters Model: IGRF 2005		Dip: 80.888° Mag Dec: +8.200°		Date: January 04, 2006 FB: 48970.7 nT	
Surface Location Lat: N32 47 44.736 Lon: W103 24 54.324		NAD27 New Mexico State Planes, Eastern Zone, US Feet Northing: 654433.26 NUS Easting: 782189.86 NUS		Grid Conv: +0.49739339° Scale Fact: 1.0000002689	
Miscellaneous Sht: Penroc #1 Barnes Fed Plan: Penroc #1.r1		TVD Ref: RKB (0.00 ft above) Dry Date: Fri 11:21 AM January 05, 2006			



INTREPID
Directional Drilling Specialists

Critical Points								
Critical Point	MD	INCL	AZIM	TVD	YSKC	N(+) / S(-)	E(+) / W (-)	DLS
Tie-In	0.00	0.00	270.00	0.00	0.00	0.00	0.00	0.00
KOP	4540.00	0.00	270.00	4540.00	0.00	0.00	0.00	0.00
EOC	4938.88	90.72	270.00	4791.90	255.09	-0.00	-255.09	22.74
Pay Marker	5483.84	90.72	270.00	4785.05	800.00	-0.00	-800.00	0.00
PBHL	6283.90	90.72	270.00	4775.00	1600.00	-0.00	-1600.00	0.00



Departure (ft) Azim = 270°, Scale = 1:200 Origin = 0 N-S, 0 E-W

Proposal

Report Date: January 6, 2006 Client: Penroc Oil Field: Lea County, NM Structure / Slot: Penroc #1 Barnes Fed / Penroc #1 Barnes Fed Well: Penroc #1 Barnes Fed Borehole: Penroc #1 Barnes Fed UWI/API#: Survey Name / Date: Penroc #1_r1 / January 6, 2006 Tort / AHD / DDI / ERD ratio: 90.720° / 1600.00 ft / 5.280 / 0.334 Grid Coordinate System: NAD27 New Mexico State Planes, Eastern Zone, US Feet Location Lat/Long: N 32 47 44.736, W 103 24 54.324 Location Grid N/E Y/X: N 654433.257 ftUS, E 782169.865 ftUS Grid Convergence Angle: +0.49739336° Grid Scale Factor: 1.0000027	Survey / DLS Computation Method: Minimum Curvature / Lubinski Vertical Section Azimuth: 270.000° Vertical Section Origin: N 0.000 ft, E 0.000 ft TVD Reference Datum: RKB TVD Reference Elevation: 0.0 ft relative to Sea Bed / Ground Level Elevation: 0.000 ft relative to Magnetic Declination: 8.200° Total Field Strength: 49570.672 nT Magnetic Dip: 60.888° Declination Date: January 04, 2006 Magnetic Declination Model: IGRF 2005 North Reference: Grid North Total Corr Mag North -> Grid North: +7.703° Local Coordinates Referenced To: Well Head
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Comments	Measured Depth (ft)	Inclination (deg)	Azimuth (deg)	TVD (ft)	Vertical Section (ft)	NS (ft)	EW (ft)	Closure (ft)	Closure Azimuth (deg)	DLS (deg/100 ft)	Tool Face (deg)
Tie-In	0.00	0.00	270.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-90.00M
KOP	4540.00	0.00	270.00	4540.00	0.00	0.00	0.00	0.00	0.00	0.00	-90.00M
	4600.00	13.65	270.00	4599.43	7.11	-0.00	-7.11	7.11	270.00	22.74	0.00G
	4700.00	36.39	270.00	4689.46	49.12	-0.00	-49.12	49.12	270.00	22.74	0.00G
	4800.00	59.13	270.00	4756.24	122.67	-0.00	-122.67	122.67	270.00	22.74	0.00G
	4900.00	81.88	270.00	4789.39	216.32	-0.00	-216.32	216.32	270.00	22.74	0.00G
EOC	4938.88	90.72	270.00	4791.90	255.09	-0.00	-255.09	255.09	270.00	22.74	0.00G
Pay Marker	5483.84	90.72	270.00	4785.05	800.00	-0.00	-800.00	800.00	270.00	0.00	0.00G
PBHL	6283.90	90.72	270.00	4775.00	1600.00	-0.00	-1600.00	1600.00	270.00	0.00	0.00G



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

July 17, 2006

Penroc Oil Corp
1515 Calle Sur
Hobbs NM 88240

RE: Application for Permit to Drill
Barnes Federal #1-B, 24-09s-35e
API # 30-025-21759

Dear Merch:

Rule 102.C [19.15.3.102.C NMAC] provides that the Director of the Oil Conservation Division or his designee may deny a permit to drill, deepen or plug back if the applicant is not in compliance with Rule 40.A [19.15.1.40. A NMAC]. An operator who operates between 4 to 100 may have no more than 2 wells on the inactive well list kept pursuant to Rule 40.F [19.15.1.40.F NMAC]. In considering whether to deny the application, Rule 102.C requires the Director or his designee to consider the number of wells not in compliance, the length of time the wells has been out of compliance, and the operator's efforts to bring the wells into compliance.

Penroc Oil Corp. (Penroc) operates 49 wells; 3 of those wells appear on the inactive well list. Penroc is out of compliance with Rule 40.A.

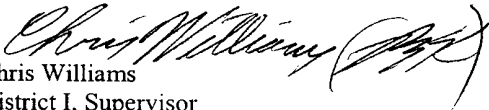
Daniel Sanchez, the Director's designee, has determined to grant approval for this application.

Please note, however, that under Rule 1104 [19.15.13.1104 NMAC] the Oil Conservation ("OCD") cannot assign an allowable to a well or issue authorization to transport oil or natural gas from a well if the operator is out of compliance with Rule 40. **If Penroc is not in compliance with Rule 40 at the time it requests an allowable and authorization to transport, its request shall be denied.**

Penroc can return to compliance with Rule 40 by reducing the number of wells that appear on the Rule 40 inactive well list. A well is removed from the list when its well bore is plugged, it is placed on approved temporary abandonment status, it is returned to production or other beneficial use, or it is covered by an agreed compliance order setting a schedule for returning inactive wells to compliance and imposing a penalty if that schedule is not met. If you would like to discuss an agreed compliance order, please contact OCD attorney Gail MacQuensten at (505) 476-3451.

Yours truly,

OIL CONSERVATION DIVISION


Chris Williams
District I, Supervisor

CW:dm

CC: OCD Santa Fe –Gail MacQuensten, Assistant General Counsel
OCD Santa Fe –Daniel Sanchez, Enforcement and Compliance Manager