

| | | | | | |
|-----------------|----------|-------------------------|-------------------|-----------------|-------------------------------|
| DATE IN 9/11/06 | SUSPENSE | ENGINEER <u>STEGNER</u> | LOGGED IN 9/11/06 | TYPE <u>NSL</u> | APP NO. <u>PTD50625451647</u> |
|-----------------|----------|-------------------------|-------------------|-----------------|-------------------------------|

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

1220 South St. Francis Drive, Santa Fe, NM 87505



Hawk B-1 #43

9-7215-R37E

Person Skelly Fed → Fed

ADMINISTRATIVE APPLICATION CHECKLIST

5488

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.

James Bruce
 Print or Type Name

Signature

Attorney for applicant
 Title

Date

jamesbruc@aol.com
 e-mail Address

2006 SEP 11 AM 11 27

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruc@aol.com

September 11, 2006

Hand Delivered

Mark E. Fesmire, P.E.
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Dear Mr. Fesmire:

Pursuant to Division Rule 104.F(2), Apache Corporation applies for administrative approval of an unorthodox oil well location for the following well:

| | |
|-----------------------|---|
| <u>Well Name:</u> | Hawk B-1 Well No. 43 |
| <u>Well Location:</u> | 1330 feet FNL & 1495 feet FWL |
| <u>Well Unit:</u> | SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 9, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico |

The well will test the Grayburg formation (Penrose Skelly Pool) and San Andres formation, and applicant requests unorthodox location approval in both zones. Both pools are developed on statewide rules, with 40 acre spacing, and wells to be located no closer than 330 feet to a quarter-quarter section line.

The application is based on geological and engineering reasons. A complete discussion, with exhibits, is attached as Exhibit A (including a Form C-102). As to the Grayburg formation, the well is located midway between four Grayburg wells. The well data shows that wells in both zones drain considerably less than 40 acres. Therefore, the proposed location will recover undrained reserves in both zones.

Unit F will be simultaneously dedicated to the proposed well and the existing Hawk B-1 Well No. 24, and applicant requests simultaneous dedication approval.

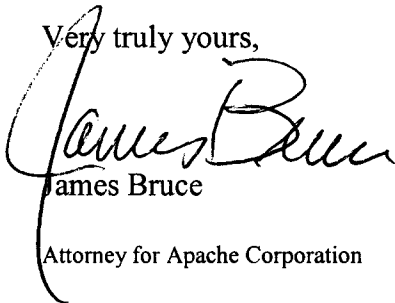
30-025-35797

There has been no San Andres production from the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 9, and applicant's data indicates that San Andres production is marginal. Thus, using the well to test both the Grayburg and the San Andres will prevent waste.

Exhibit B is a land plat. The location encroaches on the Hawk A Lease, which covers (among other lands) the E $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 9. The working interest owners have entered into the Cooperative Well Agreement attached as Exhibit C. Production from the proposed well will be allocated between the three leases as set forth in Exhibit C (74.44% to the Hawk B-1 Lease and 25.56% to Hawk A Lease). Because the interest owners have agreed to the allocation of production, no interest owner has been notified of this application.

Please call me if you need any further information on this matter.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce". The signature is written in dark ink and is positioned above the printed name "James Bruce".

James Bruce

Attorney for Apache Corporation

Application of Apache Corporation for administrative approval of an unorthodox well location:

40 acres – 1330' FNL & 1495' FWL
Section 9, Township 21 South, Range 37 East, NMPM
Lea County, New Mexico

PRIMARY OBJECTIVE: GRAYBURG

SECONDARY OBJECTIVE: SAN ANDRES

In support:

1. Apache Corporation (Apache) is the operator of the proposed **Hawk B-1 #43** well (**Exhibit 1**). The proposed total depth is 4400' in the San Andres formation.
2. The location encroaches toward the following Penrose Skelly; Grayburg Oil wells (**Exhibit 2**).

| OPER | WELL | LOC | RESERVOIR | CUM O/G/W | DAILY O/G/W |
|--------|--------------|------|-----------|--------------|----------------|
| Apache | Hawk A #15 | 09-D | Grayburg | 5/26/27 | 6/33/36 |
| Apache | Hawk B-1 #23 | 09-C | Grayburg | 6/40/22 | 7/64/20 |
| Apache | Hawk A #10 | 09-E | Grayburg | 15/49/48 | 9/34/30 |
| Apache | Hawk B-1 #24 | 09-F | Grayburg | 45/172/52 | 24/89/21 |

Oil in MBO BOPD
Gas in MMCFG MCFGPD
Water in MBW BWPD

3. The proposed location is approximately 660' north of the boundary of East Hare San Andres Oil Pool. There are no, and have been no, San Andres producers within the effect Drilling and Spacing Units.
4. The proposed **Hawk B-1 #43** unorthodox Grayburg location of 1330' from north line and 1495' from west line is based on drainage considerations.

a) **Grayburg Reservoir**

The Grayburg is a series of alternating subtidal and supratidal dolomites, with the subtidal rock having porosity and hydrocarbons and the supratidal rock being tight. The Grayburg environments varied rapidly so that porous and tight intervals do not necessarily correlate well-to-well. Tight dolomite and/or anhydrite intervals within the Grayburg additionally create vertical hydraulic barriers between different zones of porosity. Average porosity of the Grayburg is less than 10%, and average

permeability is less than 1 millidarcy. Grayburg wells are thus not capable of draining the 40 Acre Spacing Unit.

The reservoir was analyzed by mapping hydrocarbon pore volume (SoPhiH) (**Exhibit 3**). SoPhiH is the product of feet of net pay (H) times average porosity (PhiA) times oil saturation (So). The values were obtained as follows:

1. Net Pay was read from modern neutron-density logs which have contractor calculated cross-plotted porosity (XPhi) using a minimum of 6% and a maximum of 18%. Additionally, gamma ray (40 APIU) and water saturation (10% - 50%, using a standard equation with $a=1$ and $m=n=2$) cutoffs were also employed.
2. Average Porosity was calculated for intervals meeting those criteria.
3. Oil Saturation is the additive inverse of water saturation.

The following table provides drainage areas calculated from the SoPhiH map and reserves of the offsetting wells.

| OPER | WELL | LOC | AREA A | EUR MBO | EUR MMCFG |
|--------|--------------|------|-----------|------------|--------------|
| Apache | Hawk A #15 | 09-D | 23 | 44 | 222 |
| Apache | Hawk B-1 #23 | 09-C | 38 | 58 | 443 |
| Apache | Hawk A #10 | 09-E | 28 | 104 | 546 |
| Apache | Hawk B-1 #24 | 09-F | 49 | 128 | 517 |

The intent of the well is to recover reserves that cannot be recovered by the existing wells. The location was placed in the center of the vacant area between those existing wells. The location was then moved due to surface conditions and cultural obstructions.

Reserves for the proposed location were calculated by planimetry the undrained area of the SoPhiH isopach which lies under a drainage circle (the size of which is the average of the direct offset drainage areas) centered on the proposed location. Any competitive drainage is shared between the proposed well and the existing offset wells. The results are as follows:

| WELL | LOC | SoPhiH | AREA A | EUR MBO | EUR MMCFG |
|--------------|------|--------|-----------|------------|--------------|
| Hawk B-1 #43 | 09-F | 2.87 | 15 | 31 | 250 |

b) San Andres Reservoir

The San Andres is the secondary objective of the **Hawk B-1 #43**. Like the super-adjacent Grayburg, it is a shallow shelf carbonate. The upper 200' -

300' is tighter and tends to be oil productive, whereas the lower part of the formation is much more porous and generally productive of water and gas. Apache is targeting only the upper, oil prone interval.

Testing of and production from the upper San Andres to date by Apache, suggest that it is only marginally commercial. Reserves from the upper interval will not support drilling a well targeting only this interval. Testing and production further suggest that the wells will not drain an entire 40 Acre Drilling and Spacing Unit.

San Andres potential was evaluated using the Net Pay map (**Exhibit 4**), analyzing the interval above a drill depth of 4200'. Petrophysical parameters are:

1. Gamma Ray less than 40 APIU
2. XPhi between 5% and 15%
3. LLD between 50 ohm*m and 500 ohm*m.

The well is expected to encounter 47' of Net San Andres Pay.

| WELL | LOC | Pay | AREA A | EUR MBO | EUR MMCFG |
|--------------|------|-----|-----------|------------|--------------|
| Hawk B-1 #43 | 09-F | 47 | 20 | 10 | 398 |

5. Notice

Apache is the operator and working interest owner of the Grayburg wells and would be the operator and working interest owner of any San Andres wells toward which the proposed **Hawk B-1 #43** will encroach. The NW/4, §9 is divided between the Hawk A (NM 031741(a) W/2NW/4) and Hawk B-1 Federal (NM 90161 E/2NW/4) leases which have common working owners as follows:

Chevron USA
11111 S. Wilcrest
Houston, TX 77099
Attn: Mr. Robert A. Nunmaker III

BP America Production Company
501 Westlake Boulevard
Houston, TX 77079
Attn: Mr. Tom Furtwangler

Apache and the affected working interest owners will enter into an appropriate Lease Line Agreement before the well is spudded.

6. Approval of this application will afford the interest owners in these spacing units an opportunity to recover oil and gas which would not otherwise be recovered.

DISTRICT I
1625 N. FRENCH DR., BOBBS, NM 88240State of New Mexico
Energy, Minerals and Natural Resources DepartmentDISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87506OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505Form C-102
Revised JUNE 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

| | | |
|---------------|-------------------------------------|--------------------|
| API Number | Pool Code | Pool Name |
| Property Code | Property Name HAWK B-1 | Well Number 43 |
| OGRID No. | Operator Name APACHE CORPORATION | Elevation 3499' |

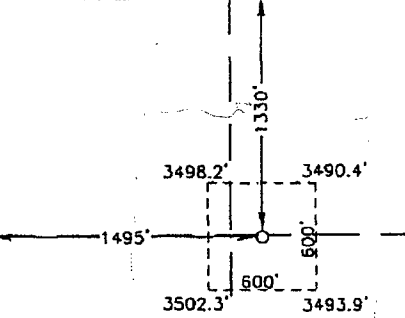
Surface Location

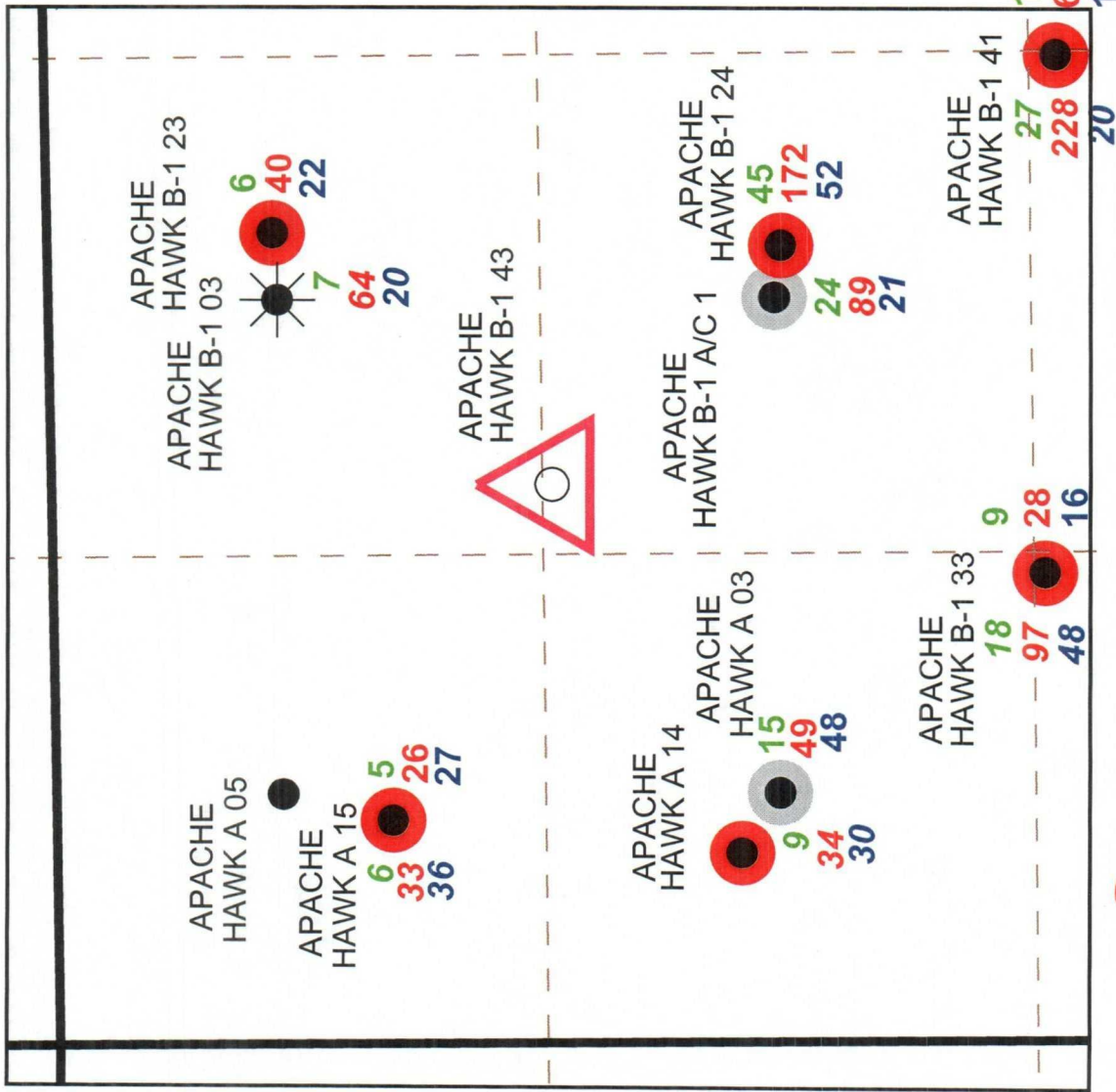
| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| F | 9 | 21-S | 37-E | | 1330 | NORTH | 1495 | WEST | LEA |

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 |
|-----------------|-----------------|--------------------|-----------|---------|---------------|------------------|---------------|----------------|--------|
| | | | | | | | | | |
| Dedicated Acres | Joint or Infill | Consolidation Code | Order No. | | | | | | |

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

| | |
|--|--|
|  <p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=546443.8 N X=858290.2 E</p> <p>LAT.=32°29'48.90" N LONG.=103°10'16.54" W</p> | <p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p>Signature _____</p> <p>Printed Name _____</p> <p>Title _____</p> <p>Date _____</p> <p>SURVEYOR CERTIFICATION</p> <p>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.</p> <p>NOVEMBER 30, 2005</p> <p>Date Surveyed _____ JR</p> <p>Signature & Seal of Professional Surveyor <i>Gary Edson</i> 12/9/05</p> <p>Certificate No. RONALD J. EDSON 3239 GARY EDSON 12641</p> |
|--|--|



WELL SYMBOLS

- Location Only
- Oil Well
- ⊗ Gas Well
- ⊖ Dry

POSTED WELL DATA

OPERATOR
 WELL LABEL
 MBO
 MMCFG
 MBW
 CURRENT BOPD
 CURRENT MCFFD
 CURRENT BWPD

TWO WARREN PLACE, SUITE 1500
6120 SOUTH YALE
TULSA, OKLAHOMA 74136-4224

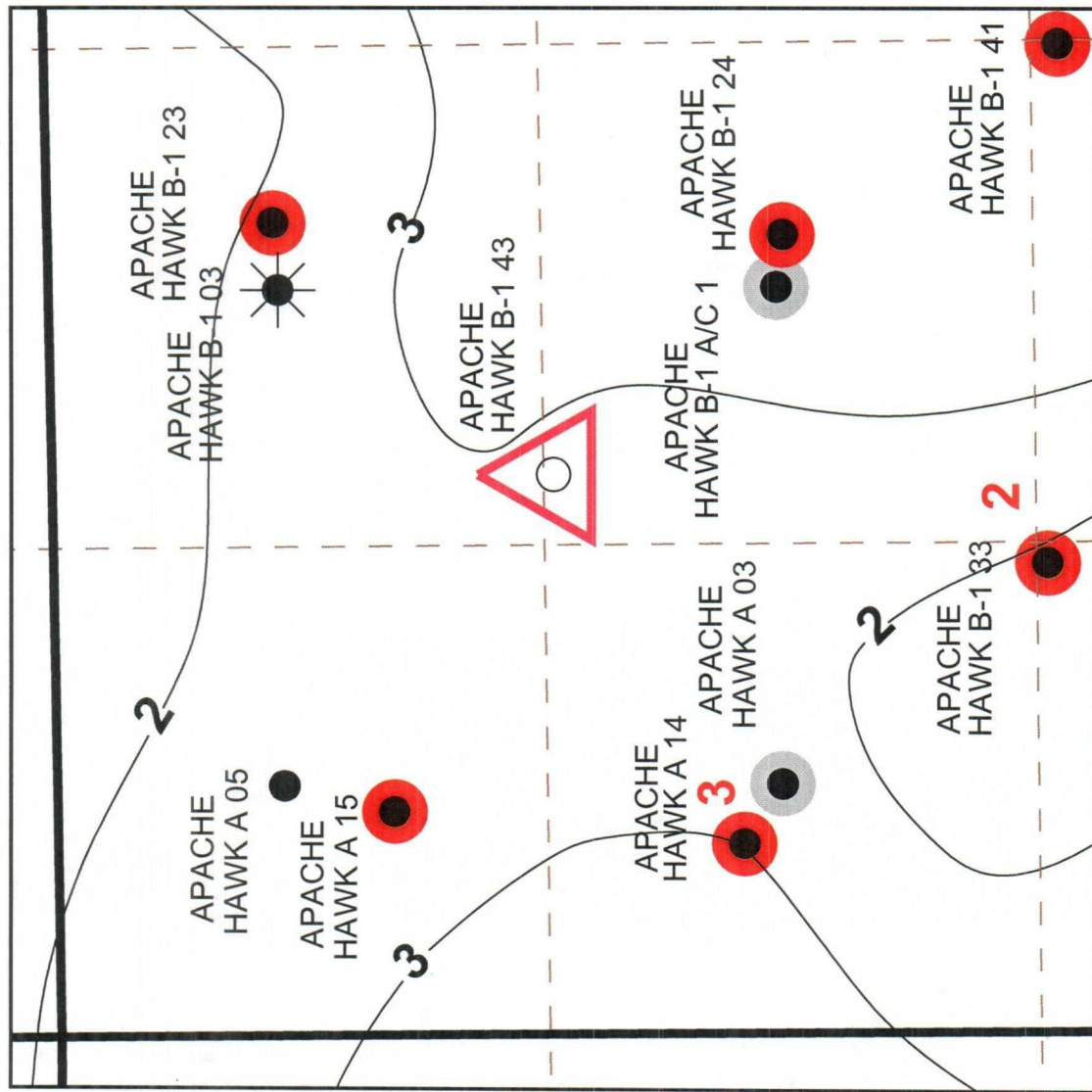
HAWK B-1 43

SEC 9-T21S-R37E
LEA COUNTY, NEW MEXICO

EXHIBIT 2
WELL INFORMATION

DATE: 12/1/05

DWG: CURTIS\GBSA-NSL\WELL (EX2)



GRAYBURG

SAN ANDRES

BLINEBRY, TUBB, AND/OR DRINKARD

0 500 1,000 1,500

FFFT

WELL SYMBOLS

- Location Only
- Oil Well
- ☀ Gas Well
- ⊖ Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

GRAYBURG SOPHIH ●



TWO WARREN PLACE, SUITE 1500
6120 SOUTH YALE
TULSA, OKLAHOMA 74136-4224

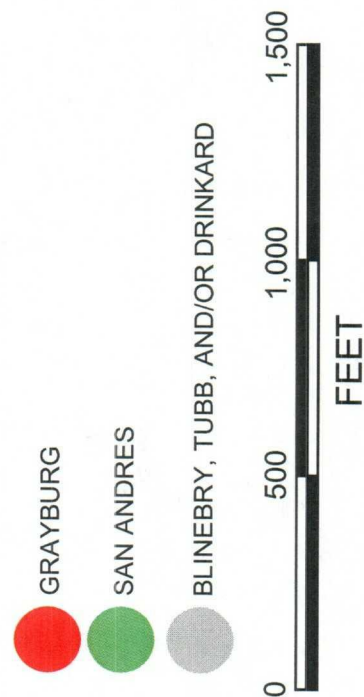
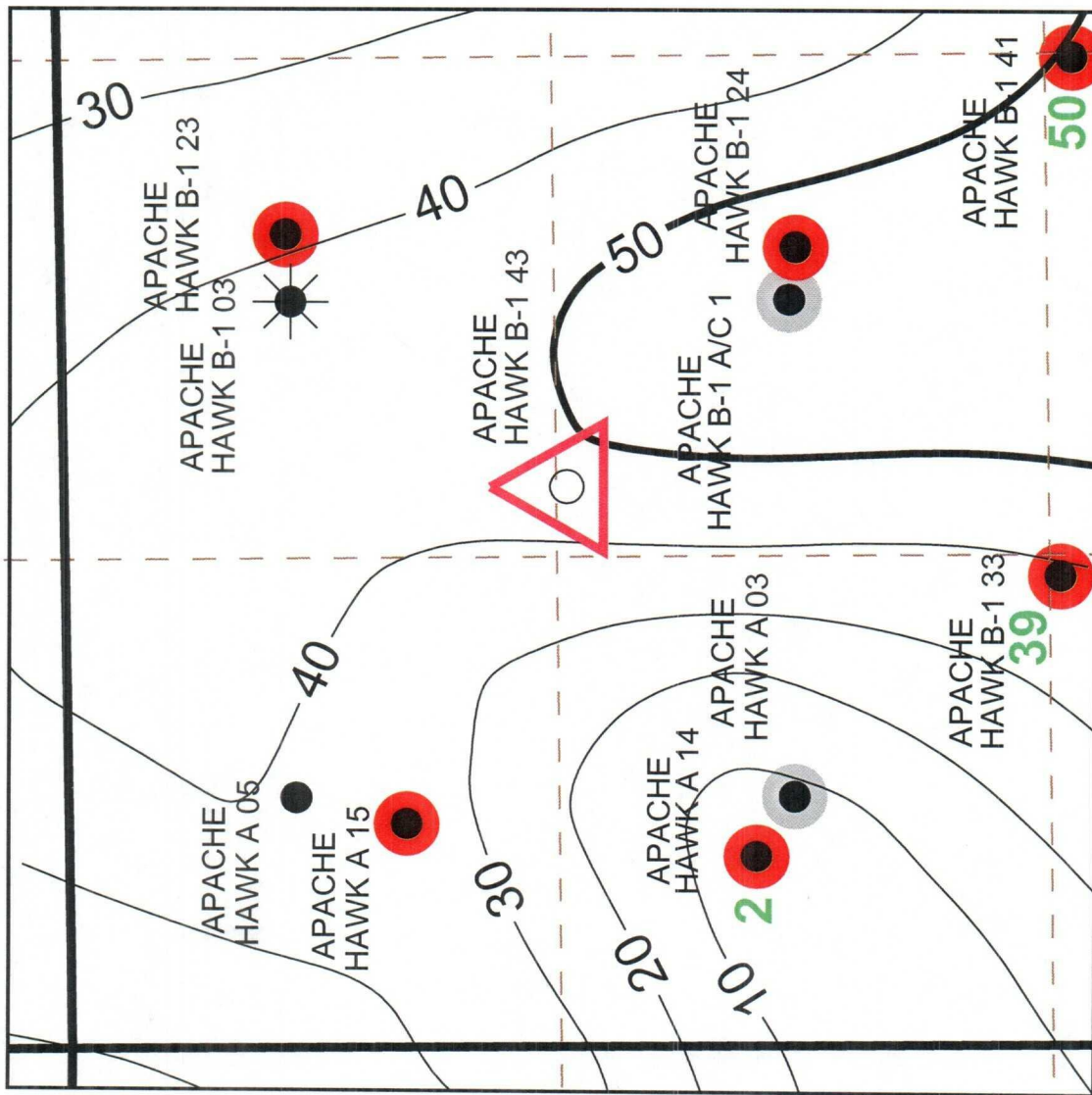
HAWK B-1 43

**SEC 9-T21S-R37E
LEA COUNTY, NEW MEXICO**

EXHIBIT 3

GRAYBURG SOPHIH

DATE: 12/1/05 DWG: CURTIS/GBSA-NSLWELL (EX3)



WELL SYMBOLS

- Location Only
- Oil Well
- ☼ Gas Well
- ⊖ Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

SAN ANDRES PAY ●

| | |
|--|---|
| Apache CORPORATION CENTRAL REGION | TWO WARREN PLACE, SUITE 1500 6120 SOUTH YALE TULSA, OKLAHOMA 74136-4224 |
| HAWK B-1 43 | |
| SEC 9-T21S-R37E | |
| LEA COUNTY, NEW MEXICO | |
| EXHIBIT 4 | |
| SAN ANDRES PAY | |
| DATE: 12/1/05 | DWG: CURTIS\GBSA\NSL\WELL (EX4) |

COOPERATIVE WELL AGREEMENT
(for the Hawk B-1 # 43 Well)

This Cooperative Well Agreement ("Agreement"), is entered into and is effective as of the 1st day of May, 2006, between **BP AMERICA PRODUCTION COMPANY**, whose address is 501 Westlake Park Blvd., Houston, TX 77079 ("BP"), **CHEVRON U.S.A. INC.**, whose address is 11111 S Wilcrest, Houston, TX 77099 ("Chevron") and **APACHE CORPORATION**, whose address is 6120 South Yale Avenue, Suite 1500, Tulsa, Oklahoma 74136 ("Apache"). BP, Chevron, and Apache are sometimes hereafter referred to individually as "Party" and collectively as "Parties".

WITNESSETH:

WHEREAS, Apache is Operator of the following oil and gas leases in Lea County, New Mexico (hereinafter sometimes collectively referred to as the "Properties"):

1. Hawk B-1 Lease –

Lessor: The United States of America NM 90161

Lessee: Estate of Wilbur C. Hawk

Date: March 1, 1958

Description: Insofar and only insofar as same covers the following-described land in Lea County, New Mexico:

Township 21 South, Range 37 East, N.M.P.M.

Section 9: SW/4NE/4NW/4, NW/4SE/4NW/4

2. Hawk A Lease –

Lessor: The United States of America NM 031741 (a)

Lessee: Estate of Wilbur C. Hawk

Date: January 1, 1958

Description: Insofar and only insofar as same covers the following-described land in Lea County, New Mexico:

Township 21 South, Range 37 East, N.M.P.M.

Section 9: SE/4NW/4NW/4, NE/4SW/4NW/4

WHEREAS, the Parties each own undivided operating rights in and to the Hawk B-1, and Hawk A Leases, and

WHEREAS, the Parties desire to drill and complete the **Hawk B-1 # 43 Well** ("Cooperative Well") for the production of oil, gas and related hydrocarbons insofar as it covers the Grayburg and San Andres formations at a non-standard location encroaching on the lease line between the Hawk B-1 and Hawk A Leases in NW/4 of Section 9, as described below; and

WHEREAS, the Parties desire to provide for the sharing of production from and the costs of drilling, completing and operating said **Hawk B-1 # 43 Well** as described herein below.

NOW THEREFORE, the Parties hereby agree as follows:

1. DESIGNATION AND RESPONSIBILITIES OF OPERATOR

A. Apache is designated as operator ("Operator") of the **Hawk B-1 # 43 Well** for the purposes of this Agreement.

B. Operator shall drill, complete and operate the Cooperative Well for oil and/or gas production from horizons encountered from the surface of the earth down to and including the base of the San Andres Formation as follows:

Hawk B-1 # 43 Well:

| | |
|----------------------|---|
| SURFACE LOCATION: | 1330' FNL & 1495' FWL, Sec. 9, T21S-R37E, Lea County, New Mexico, |
| Planned Total Depth: | 4,400 feet, but in no event below the base of The San Andres Formation plus one hundred (100) feet for operational purposes only. |

Except as otherwise provided in this Agreement, the Parties agree that all operations, and the rights and obligations of the Parties, with respect to the Cooperative Well shall be governed by the terms and conditions of that certain NMFU Operating Agreement dated September 1, 1989, as amended to date (hereinafter referred to as the "NMFU Operating Agreement"), specifically including, but not limited to, the insurance and indemnification provisions of that Agreement. Solely for purposes of drilling and operating the **Hawk B-1 # 43 Well**, Exhibit A-1 to the NMFU Operating Agreement is amended to cover the **Hawk B-1 # 43 Well** as provided herein. As between the Parties there is and shall be no cross-assignment or other transfer to title to any interests of the Parties in the Properties as a result of this Agreement. This Agreement is merely a contractual arrangement among the Parties to drill, equip, test, operate and produce the Cooperative Well. BP and Chevron shall, at their sole cost and risk, have access to the Cooperative Well location at all reasonable times to inspect or observe operations and to information pertaining to the development and operation of the Cooperative Well. BP and Chevron shall also have the right to audit Operator's books and records relating thereto in accordance with the applicable provisions of Exhibit "C" - Accounting Procedure, attached to the NMFU Operating Agreement. Operator, upon request, shall furnish BP and Chevron copies of all forms or reports filed with governmental agencies, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available to BP and Chevron samples of any cores or cuttings taken from the Cooperative Well. The cost of gathering and furnishing information to BP and Chevron, other than that specified above shall be charged to BP and Chevron.

C. Operator shall establish and maintain a Joint Account for the performance hereof, and shall advance all costs incurred in connection with operating the Cooperative Well and shall charge the Joint Account for all such costs on the basis provided in Exhibit "C" - Accounting Procedure, NMFU Operating Agreement. All charges and credits to the Joint Account for the Cooperative Well shall be borne, and production therefrom will be shared, including but not limited to charges, credits and production associated with recompletions of the Cooperative Well to horizons shallower than the San Andres formation, by the below named Parties in the percentage shown opposite their name as follows:

| | |
|---------------|--------|
| Apache: | 50.00% |
| BP | 25.00% |
| Chevron | 25.00% |

All other operations conducted or wells drilled on the lands described above not related to the Cooperative Well, will not be affected by this Agreement.

If any provision of Exhibit "C" - Accounting Procedure is inconsistent with any provision in this Agreement, the provisions of this Agreement shall prevail.

2. **TERM OF AGREEMENT**

This Agreement shall remain in full force and effect so long as such Cooperative Well continues to produce oil or gas or both, and for an additional period of ninety (90) days from cessation of all production; provided, however, if, prior to the expiration of such additional period, the Parties are engaged in drilling or reworking operations to restore production from the Cooperative Well hereunder, this Agreement shall continue in force until such operations have been completed, with no cessation of more than sixty (60) consecutive days, and if production results there from, this Agreement shall continue in force as provided herein. Upon cessation of the production of oil or gas or both, Operator shall plug and abandon the Cooperative Well in accordance with all rules and regulations of all governmental agencies having jurisdiction over the premises at the cost, risk, and expense of the Parties, and shall salvage all equipment in and on the

well for the account of the Party(ies) that initially paid for said equipment. The termination of this Agreement shall not relieve any of the parties from any liability which has accrued hereunder prior to the date of such termination.

Notwithstanding anything to the contrary contained elsewhere in this Agreement, if the actual drilling operations for the Cooperative Well are not commenced on or before April 1, 2007, then this Agreement shall immediately terminate and shall have no further force and effect.

3. **NON-PARTNERSHIP ELECTION**

A. Under no circumstances shall this Agreement be construed as creating a partnership, mining partnership or an association for profit between or among the Parties hereto. The liability of the Parties shall be several and not joint or collective. Each Party shall be liable only for the costs incurred and the risks assumed by each respective Party in connection with the performance of this Agreement.

B. Notwithstanding any provisions herein that the right and liabilities of the Parties hereunder are several and not joint or collective or that this Agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Apache is authorized and directed to execute on behalf of each of the Parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United State or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the date required by Federal Regulations 1.761-2. Should there be any requirement that each party hereto further evidence this election, each Party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each Party hereto further agrees not to give any notices or take any other action inconsistent with election made hereby. If any present or future income tax laws of the state or states in which the property covered by this Agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of Subchapter K is permitted, each of the parties hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the Parties hereto hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of the partnership taxable income.

4. **TRANSFER OF INTEREST**

If any instrument purporting to effectuate the sale, assignment, or transfer of any interest of a Party in or to the Hawk B-1 Lease or the Hawk A Lease does not expressly provide that such sale, assignment or transfer is made and accepted subject to this Agreement, the purported sale, assignment or transfer of any such interest shall be void.

5. **CLAIMS AND LAWSUITS**

A. If any Party is sued on an alleged cause of action arising out of operations covered by this Agreement, it shall give prompt written notice of the suit to the other party.

B. Operator may settle any single damage claim or suit arising from operations hereunder for any settlement amount not exceeding Thirty-Five Thousand Dollars (\$35,000), provided such payment is in complete settlement of such claim or suit.

C. If the amount required for settlement exceeds the amount hereinabove set out, Operator shall give notice to BP and Chevron of its intent to settle for such higher amount, and if BP and Chevron agree to such higher amount, Operator may settle such claim or suit for such higher amount.

D. If, in Operator's opinion, such claim or suit is not amenable to or susceptible of settlement, Operator may upon the written consent of the Parties hereto supervise the administration of said claim or suit employing Operator's staff attorneys or other attorneys as it may see fit to do so, provided that the settlement limitations set forth in paragraph 5B shall apply, inclusive of costs and attorney fees incurred by Operator. The fees and expenses of settlement and handling such claim or suit shall be charged to the Joint Account, provided no charge shall be made for services performed by the staff attorneys for either Party.

6. **TAKING PRODUCTION IN KIND**

Each Party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Cooperative Well, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any Party of its proportionate share of the production shall be borne by such Party. Any Party taking its share of production in kind shall be required to pay only for its proportionate share of such part of Operator's surface facilities which it uses. In the event one or more Parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines which on a day-to-day basis for any reason are not exactly equal to a Party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the Parties shall be in accordance with the Gas Balancing Agreement attached to the NMFU Operating Agreement.

In the event any Party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Cooperative Well, Operator shall have the right, subject to the revocation at will by the Party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking Party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other Party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

7. **PRODUCTION ALLOCATION AND BURDENS ADMINISTRATION**

All royalties, overriding royalty interests, production payments, or similar lease burdens encumbering the Properties which are created and existing as of the effective date hereof are defined as the Existing Burdens. Solely for the payment of such Existing Burdens, all oil, gas and related hydrocarbons produced from or allocated to the Cooperative Well shall be allocated to the Properties as follows:

| | |
|----------------------|--------|
| Hawk B-1 Lease | 74.44% |
| Hawk A Lease | 25.56% |

Each Party shall account for and administer its share of the Existing Burdens attributable to the Hawk B-1 Lease and the Hawk A Lease based on such Party's operating rights in said lease(s) insofar and only insofar as to the formation(s) being produced from the Cooperative Well. Further, each Party shall indemnify and hold harmless each other Parties for the payment of its share of such Existing Burdens.

Acceptance of the payment of such Existing Burdens by the owners thereof shall never be construed as approval or ratification of a pooling, unitization, or communitization of the Hawk B-1 Lease and the Hawk A Lease.

8. **MEASUREMENT**

Subject to the provisions of Paragraph 6, all oil produced from the Cooperative Well will be measured in accordance with the standard metering practice accepted by the Bureau of Land Management. The method used shall be checked for accuracy at least once every month. All gas

separated from such oil shall be metered or determined from well test before delivery to the gas purchaser.

9. **TITLE**

This Agreement is not intended as a conveyance of any interest whatsoever in real property owned or controlled by the Parties, but is merely a contractual arrangement between the Parties to operate the Cooperative Well and share the production and costs thereof.

10. **NOTICES**

A. All notices authorized or required by this Agreement, unless otherwise specifically provided, shall be deemed to have been given when it is received by the Party to whom addressed if it is given in writing by Certified Mail, Return Receipt Requested, or telegram, postage or charges prepaid, and addressed to the parties to whom the notice is given at the addresses listed above.

B. Each Party shall have the right to change its address at any time and from time to time by giving written notice thereof to the other Parties.

11. **PRE-COMMENCEMENT APPROVALS**

Notwithstanding anything to the contrary contained elsewhere in this Agreement, Operator shall not commence actual drilling operations for the Cooperative Well until this Agreement, and the operations contemplated hereunder, has been approved by the Authorized Officers of the Bureau of Land Management, and the New Mexico Oil Conversation Division. Operator shall be solely responsible for obtaining such approvals. All costs, expenses, and fees associated with obtaining such approvals shall be billed and accounted for pursuant to 1.C. of this Agreement.

12. No director, employee, or agent of either party will give to or receive from any director, employee, or agent of the other party any commission, fee, rebate, gift, or entertainment of significant cost or value in connection with this Agreement. During the term of this Agreement and for 2 years, thereafter, any mutually agreeable representatives authorized by either party may audit the applicable records of the other party solely for the purpose of determining whether there has been compliance with this paragraph. The provisions of this paragraph will survive termination of this Agreement.

This Agreement is freely assignable and shall extend to and be binding on the successors and assigns of the Parties hereto.

This Agreement may be executed in any number of counterparts, each of which shall be considered as an original for all purposes.

IN WITNESS WHEREOF, the parties have caused the execution of this instrument to be effective on the date first above written

APACHE CORPORATION

BP AMERICA PRODUCTION COMPANY

By: John Swain
Printed Name: John Swain
Title: Attorney-In-Fact

By: _____
Printed Name: _____
Title: _____

MS

CHEVRON U.S.A. INC.

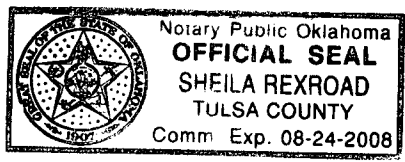
BUREAU OF LAND MANAGEMENT

By: _____
Printed Name: _____
Title: _____

By: _____
Printed Name: _____
Title: _____

STATE OF OKLAHOMA §
 §
COUNTY OF TULSA §

This instrument was acknowledged before me this 13th day of June, 2006, by John Swain, as Attorney-In-Fact, on behalf of Apache Corporation, a Delaware corporation.



Sheila Rexroad
Notary Public, State of Oklahoma

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____ of BP America Production Company, a Delaware corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____ of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF NEW MEXICO §
 §
COUNTY OF LEA §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____, Authorized Officer of the Bureau of Land Management on behalf of the Bureau of Land Management.

Notary Public, State of New Mexico

separated from such oil shall be metered or determined from well test before delivery to the gas purchaser.

9. **TITLE**

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APACHE CORPORATION

By: John Swain
Printed Name: John Swain
Title: Attorney-In-Fact

CHEVRON U.S.A. INC.

By: _____
Printed Name: _____
Title: _____

BP AMERICA PRODUCTION COMPANY

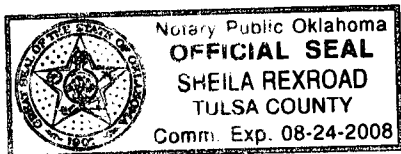
By: E.M. Sierra
Printed Name: E.M. Sierra
Title: Attorney-in-Fact

BUREAU OF LAND MANAGEMENT

By: _____
Printed Name: _____
Title: _____

STATE OF OKLAHOMA §
 §
COUNTY OF TULSA §

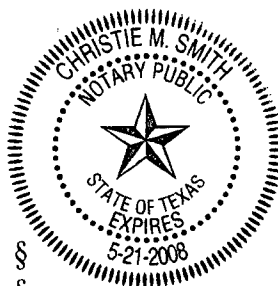
This instrument was acknowledged before me this 13th day of June, 2006, by John Swain, as Attorney-In-Fact, on behalf of Apache Corporation, a Delaware corporation.



Sheila Rexroad
Notary Public, State of Oklahoma

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me this 12th day of July, 2006, by E.M. Sierra, Attorney-In-Fact of BP America Production Company, a Delaware corporation, on behalf of said corporation.



Christie M. Smith
Notary Public, State of Texas

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____ of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF NEW MEXICO §
 §
COUNTY OF LEA §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____, Authorized Officer of the Bureau of Land Management on behalf of the Bureau of Land Management.

Notary Public, State of New Mexico

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9. **TITLE**

This Agreement is not intended as a conveyance of any interest whatsoever in real property owned or controlled by the Parties, but is merely a contractual arrangement between the Parties to operate the Cooperative Well and share the production and costs thereof.

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11. **PRE-COMMENCEMENT APPROVALS**

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This Agreement may be executed in any number of counterparts, each of which shall be considered as an original for all purposes.

IN WITNESS WHEREOF, the parties have caused the execution of this instrument to be effective on the date first above written

APACHE CORPORATION

By: John Swain
Printed Name: John Swain
Title: Attorney-In-Fact

HS

BP AMERICA PRODUCTION COMPANY

By: _____
Printed Name: _____
Title: _____

CHEVRON U.S.A. INC.

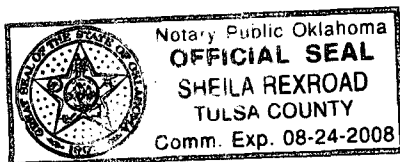
By: D.A. Brelia
Printed Name: D.A. BRELIA
Title: ATTORNEY-IN-FACT

BUREAU OF LAND MANAGEMENT

By: _____
Printed Name: _____
Title: _____

STATE OF OKLAHOMA §
 §
COUNTY OF TULSA §

This instrument was acknowledged before me this 13th day of June, 2006, by John Swain, as Attorney-In-Fact, on behalf of Apache Corporation, a Delaware corporation.



Sheila Rexroad
Notary Public, State of Oklahoma

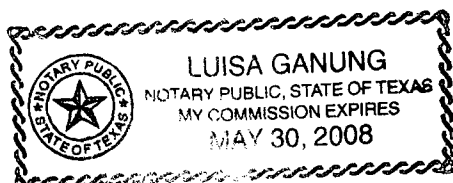
STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____ of BP America Production Company, a Delaware corporation, on behalf of said corporation.

Notary Public, State of Texas

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

This instrument was acknowledged before me this 19th day of JUNE, 2006, by D.A. Brelin, Attorney-In-Fact of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.



Luisa Ganung
Notary Public, State of Texas

STATE OF NEW MEXICO §
 §
COUNTY OF LEA §

This instrument was acknowledged before me this ____ day of _____, 2006, by _____, Authorized Officer of the Bureau of Land Management on behalf of the Bureau of Land Management.

Notary Public, State of New Mexico

Brooks, David K., EMNRD

From: Brooks, David K., EMNRD
Sent: Wednesday, November 08, 2006 11:41 AM
To: 'JamesBruc@aol.com'
Subject: Apache infill applications

Jim

In reviewing these applications, I find that the BLM and SLO consents or communitization agreements (as applicable) are not included in the packages. We will need to be furnished copies of these documents prior to final issuance of orders in these cases.

11/8/2006

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruce@aol.com

2006 NOV 13 PM 1 16

November 13, 2006

Hand Delivered

David K. Brooks
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Apache Corporation

Dear David:

This letter is in response to your e-mail of November 8th regarding notice and other issues:

1. My reference to "Lease Line Agreements" does mean the Cooperative Agreements signed by the working interest owners and the BLM. I apologize for the confusion.
2. As to notice to royalty owners and overriding royalty owners, our reasoning was as follows:
 - (a) As to the State and Federal leases, I view the Communitization Agreements and Cooperative Agreements as "modifying" the lease terms to allow the wells to be drilled and production accounted for under those agreements.
 - (b) There are no overriding royalty owners in the Hawk B lease and in all of the State leases. As to the Hawk A lease, the instrument creating the overriding royalty provides (as was common at that time) that it will be calculated and paid "the same as royalties payable to the government." Thus, I believe the BLM's approvals would cover those interests.

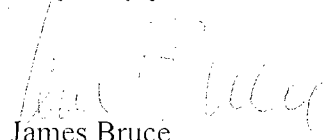
(c) In practical terms, the Division would never have allowed the wells to be drilled as close as they are to the lease lines without some type of sharing between leases, even if notice had been given to offsets. Mike Stogner stated to us that he would never have approved them. Therefore, approval of the locations does give everyone (working interest, royalty, and overriding royalty owners) production and revenue they never would otherwise receive.

(d) As to fee royalty owners and private overriding royalty owners, the working interest owners in the pertinent leases are ultimately accountable to them: Division approval does not shield an operator from the consequences of its actions. **Snyder Ranches, Inc. v. Oil Conservation Comm'n**, 110 N.M. 637 (1990).

(e) Under Division rules, when notice of an unorthodox location is required it is given to the offset working interest owners, who are presumed to look after their royalty and overriding royalty owners. In most instances (for wells which are not too severely unorthodox) the working interest owners often waive objection. In the Apache applications the working interest owners are actually securing additional revenues for the royalty and overriding royalty owners.

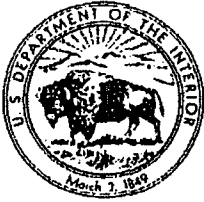
These are important questions which you have raised, and we have thought about them before. But, I believe that the working interest owners, in allocating production among the various leases, are protecting their royalty and overriding royalty owners (as well as themselves).

Very truly yours,



James Bruce

Attorney for Apache Corporation



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL FIELD OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019

IN REPLY REFER
NM-116237
3105.2 NM (513)

MAY 18 2006

RECEIVED

MAY 23 2006

Apache Corporation
Attn: Michelle Hanson
6120 S. Yale, Suite 1500
Tulsa, OK 74136-4224

TULSA
LAND DEPT.

Re: Cooperative Well Agreement
Hawk B-1 #43
NW/4 of Section 9, T. 21 S., R. 37 E.
Lea County, New Mexico

Dear Ms Hanson,

Enclosed is an approved copy of the Cooperative Well Agreement for the Hawk B-1 #43 well located in the 1330' FNL, 1495' FWL, Section 9, T. 21 S., R. 37 E., NMPM, Lea County, New Mexico. This agreement has been assigned Contract No. NMNM-116237.

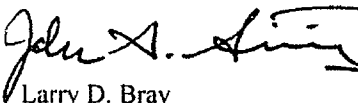
Production and royalties from the referenced well shall be allocated and reported to the Minerals Management Service (MMS) as follows:

| | |
|--------------------|--------|
| Lease NMNM 90161 | 74.44% |
| Lease NMLC 031741A | 25.56% |

Please furnish all interested principals with appropriate evidence of this approval.

If you have any questions, please contact Alexis C. Swoboda at (505) 627-0228 or the Division of Lands and Minerals at (505) 627-0272.

Sincerely,


Larry D. Bray
Assistant Field Manager
Lands and Minerals

1 Enclosure:
1 - Cooperative Well Agreement

Swoboda: 5/18/2006

9. TITLE

This Agreement is not intended as a conveyance of any interest whatsoever in real property owned or controlled by the Parties, but is merely a contractual arrangement between the Parties to operate the Cooperative Well and share the production and costs thereof.

10. NOTICES

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B. Each Party shall have the right to change its address at any time and from time to time by giving written notice thereof to the other Parties.

11. PRE-COMMENCEMENT APPROVALS

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IN WITNESS WHEREOF, the parties have caused the execution of this instrument to be effective on the date first above written

APACHE CORPORATION

BP AMERICA PRODUCTION COMPANY

By: John Swain
Printed Name: John Swain
Title: Attorney-In-Fact

By: _____
Printed Name: _____
Title: _____

CHEVRON U.S.A. INC.

BUREAU OF LAND MANAGEMENT

NMNM 116237

By: _____
Printed Name: _____
Title: _____

By: John S. Simita
Printed Name: John S. Simita
Title: Acting Assistant Field Mgr.