

DATE IN 7/11/06	SUSPENSE	ENGINEER <del>M. STOEGER</del> BROOKS	LOGGED IN 7/11/06	TYPE NSL	APP NO. 97DS0625458888
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ABOVE THIS LINE FOR DIVISION USE ONLY

# NEW MEXICO OIL CONSERVATION DIVISION

- Engineering Bureau -

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



Hawk B-1 262

9-215-37E

Fid → Fer → State

## ADMINISTRATIVE APPLICATION CHECKLIST

5498

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

9/11/06

2006 SEP 11 AM 11 33

**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)  
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[jamesbruc@aol.com](mailto: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. 62
<u>Well Location:</u>	185 feet FSL & 2460 feet FEL
<u>Well Unit:</u>	SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 9, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico

The well will test the Blinebry, Tubb, and Drinkard formations (North Eunice Blinebry-Tubb-Drinkard Pool).

The application is based on geological and engineering reasons. A complete discussion, with exhibits, is attached as Exhibit A. The well is in the approximate center of existing Blinebry, Tubb, and Drinkard wells, and the proposed location will drain additional undrained reserves.

The well unit will be simultaneously dedicated to the proposed well and to the existing Hawk B-1 Well No. 8.

Exhibit B is a land plat. The location encroaches on State Lease B-1732-1, which covers the NE $\frac{1}{4}$  of Section 16, and State Lease B-1557-2, which covers the NW $\frac{1}{4}$  of Section 16. 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 (54.71% to the Hawk B-1 Lease, 20.05% to State Lease B-1732-1, and 25.24% to State Lease B-1557-2). In addition, the State Land Office requires communitization, and the pertinent agreement submitted to the Land Office is attached as Exhibit D. Because all interest owners (including the royalty 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,

  
James Bruce

Attorney for Apache Corporation

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

40 acres – 185 FSL & 2460' FEL  
Section 9, Township 21 South, Range 37 East, NMPM  
Lea County, New Mexico

PRIMARY OBJECTIVES: Blinebry, Tubb, and Drinkard

In support:

1. Apache Corporation (Apache) is the operator of the proposed **Hawk B-1 #62** well (**Exhibit 1**).
2. The proposed unorthodox location encroaches toward the following wells which are, have been, or may be productive from various combinations of the Blinebry, Tubb, and Drinkard (**Exhibit 2**). **Exhibit 2** displays only those wells with a total depth equal to, or greater than, 5500', sufficient to penetrate at least part of the Blinebry, Tubb, and Drinkard interval. Production from the three reservoirs is assigned to individual Blinebry Oil and Gas, Tubb Oil and Gas, and Drinkard Pools, but downhole commingling is pre-approved pending submission of allocations to the Hobbs District Office.

API	Op.	Well	Loc	Pool	Cum O/G/W	Daily O/G/W
30025	Apache	Hawk B-1 #34	09-N	Tubb (60240)	13/315/9	30/0/5
36344	Apache	Hawk B-1 #34	09-N	Drinkard (19190)	4/54/1	28/341/4
09907	Apache	Hawk B-1 #06	09-N	Blinebry (06660)	80/1841/0	0/0/0
09907	Apache	Hawk B-1 #06	09-N	Drinkard (19190)	171/390/0	0/0/0
09906	Apache	Hawk B-1 #08	09-O	Blinebry (06660)	29/617/5	0.3/3/0.3
09906	Apache	Hawk B-1 #08	09-O	Drinkard (19190)	248/3853/31	6/57/6
06622	Chevron	H Leonard NCT E #03	16-B	Blinebry (06660)	100/2668/10	0/0/0
06622	Chevron	H Leonard NCT E #03	16-B	Drinkard (19190)	126/2448/8	0/0/0
06628	Apache	State C Tract 12 #06Y	16-C	Blinebry (06660)	5/370/5	1/119/2
06628	Apache	State C Tract 12 #06Y	16-C	Tubb (86440)	22/4234/2	0/16/0
06628	Apache	State C Tract 12 #06Y	16-C	Drinkard (19190)	191/1461/9	0/15/0
37202	Apache	State C Tract 12 #21	16-C	Wantz Abo (62700)	0/0/0	0/0/0

MBO  
MMCFG  
MBW

BOPD  
MCFGPD  
BWPD

3. Apache expects the proposed **Hawk B-1 #62** to test as an oil well in each of the three reservoirs. Should any reservoir test gas, Apache will either gain the appropriate approvals from the OCD to produce or abandon the reservoir.
  - a) Apache Hawk B-1 #7, in §9, Unit P is in the Tubb Gas Pool and thus SE/4, §9 is a 160 Acre Gas Unit. Apache is currently applying to the OCD to have the pool

**Exhibit A**

boundary of North Eunice Blinebry-Tubb-Drinkard extended over all of §9. If approved, both oil and gas wells would have 40 A units in the Blinebry, Tubb, and Drinkard. Until such time as the application is approved, Apache cannot produce the Tubb in **Hawk B-1 #62** wellbore.

- b) Classification of State C Tract 12 #6Y well as a Tubb gas well does not pose a spacing problem because it and **Hawk B-1 #62** are in different sections.

- 4. The proposed **Hawk B-1 #62** location of 185' from south line and 2460' from east line is based upon drainage considerations.

#### a. Geology

The Blinebry, Tubb, and Drinkard Formations are members of the Yeso Group, Permian Leonardian in age. Fluid contacts, specifically Blinebry GOC at -2255 and Drinkard OWC at -3225, employed by Shell in the unitization hearing for the NorthEast Drinkard Unit, just to the east, were used in the petrophysical evaluation of the reservoirs.

All three formations are shallow marine carbonates, consisting primarily of dolomite. The Tubb has appreciable clastic content and the Drinkard can become limey toward its base. Anhydrite can occur throughout the interval. Pay zones are thin, erratically distributed, and separated by thick impermeable intervals. Porosity and permeability are low. Wells are not generally capable of draining a full 40 Acre spacing unit. In fact, Apache's calculations indicate drainage area usually approximates 20 Acres.

Apache routinely fracture stimulates perforations in each of the three formations then produces them commingled and allocates production based upon well tests. At this stage in the history of all three pools, economics will not permit development of individual reservoirs. Thus, pay from all three reservoirs must be considered for well proposals. A combined Blinebry, Tubb, Drinkard map extracted from a larger area map is, therefore, presented (**Exhibit 3**).

The reservoir was analyzed by mapping hydrocarbon pore volume (SoPhiH) (**Exhibit 3**) of the entire Blinebry, Tubb, and Drinkard interval. 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 5% and a maximum of 20%. Additionally, gamma ray (40 APIU in the Blinebry and Drinkard and 50 APIU in the Tubb) 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.

This analysis requires modern neutron-density and resistivity logs. Water saturations can be adequately estimated from offsetting modern wells, however many wells had to be excluded from analysis because of the vintage or type of porosity logs. SoPhiH isopach lines were modeled after cumulative production isopach lines where new well control is lacking. This procedure has proved successful for Apache in recent drilling in the area.

#### b. Drainage

The following table provides drainage areas calculated from the SoPhiH map and reserves of the offsetting wells. SoPhiH values are either from modern logs, or estimated from the grid. Wells with values determined from modern logs will be in bold, others are estimates from the grid.

Op.	Well	Loc	Reservoir	SoPhiH Ft	Area A	EUR MBO	EUR MMCFG
<b>Apache</b>	<b>Hawk B-1 #34</b>	<b>09-N</b>	<b>BTD</b>	<b>15.4</b>	<b>13</b>	<b>127</b>	<b>1270</b>
Apache	Hawk B-1 #06	09-N	BTD	16.9	23	251	2231
Apache	Hawk B-1 #08	09-O	BTD	24.1	18	277	4477
Chevron	H Leonard NCT E #03	16-B	BTD	20.9	17	227	5116
Apache	State C Tract 12 #06Y	16-C	BTD	15.9	24	242	10963
Apache	State C Tract 12 #21	16-C	BTD	17.2	11	116	928

The proposed **Hawk B-1 #62** was planned as a "true" 20 Acre infill location between existing Blinebry, Tubb, and Drinkard producers. The location was placed in the center of the vacant area between the existing wells, and then moved due to surface conditions and cultural obstructions.

Reserves for the proposed location were calculated by planimetering 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:

Op.	Well	Loc	Reservoir	SoPhiH Ft	Area A	EUR MBO	EUR MMCFG
<b>Apache</b>	<b>Hawk B-1 #62</b>	<b>09-O</b>	<b>BTD</b>	<b>20.2</b>	<b>15</b>	<b>190</b>	<b>1520</b>

#### 4. Notice

Apache and Chevron are operators and of the Blinebry, Tubb, and Drinkard wells toward which the proposed well will encroach. Working interest owners who need to be notified are:

BP America Production Company  
501 Westlake Park Blvd  
Houston, TX 77079  
Attn: Land Department

Chevron U.S.A. Inc.  
11111 S. Wilcrest  
Houston, TX 77099  
Attn: Land Department

**Hawk B-1 #62** is additionally a "leaseline" location. The Hawk B-1 Lease, in §9 is a Federal Lease and the Harry Leonard Lease in NE/4 §16 and the State C Tr12 Lease in the NW/4 Sec 16 are State of New Mexico Leases. Apache will enter into an appropriate Lease Line Agreement with the working interest owners before the well is spudded.

5. 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 and to do so without violating correlative rights.

DISTRICT I  
1625 N. FRENCH DR., HOBDS, NM 88240

State of New Mexico  
Energy, Minerals and Natural Resources Department

DISTRICT II  
1301 W. GRAND AVENUE, ARTESIA, NM 86210

OIL CONSERVATION DIVISION  
1220 SOUTH ST. FRANCIS DR.  
Santa Fe, New Mexico 87505

Form C-102  
Revised JUNE 10, 2003  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

DISTRICT III  
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV  
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name HAWK B-1	Well Number 62
OGRID No.	Operator Name APACHE CORPORATION	Elevation 3492'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
0	9	21-S	37-E		185	SOUTH	2460	EAST	LEA

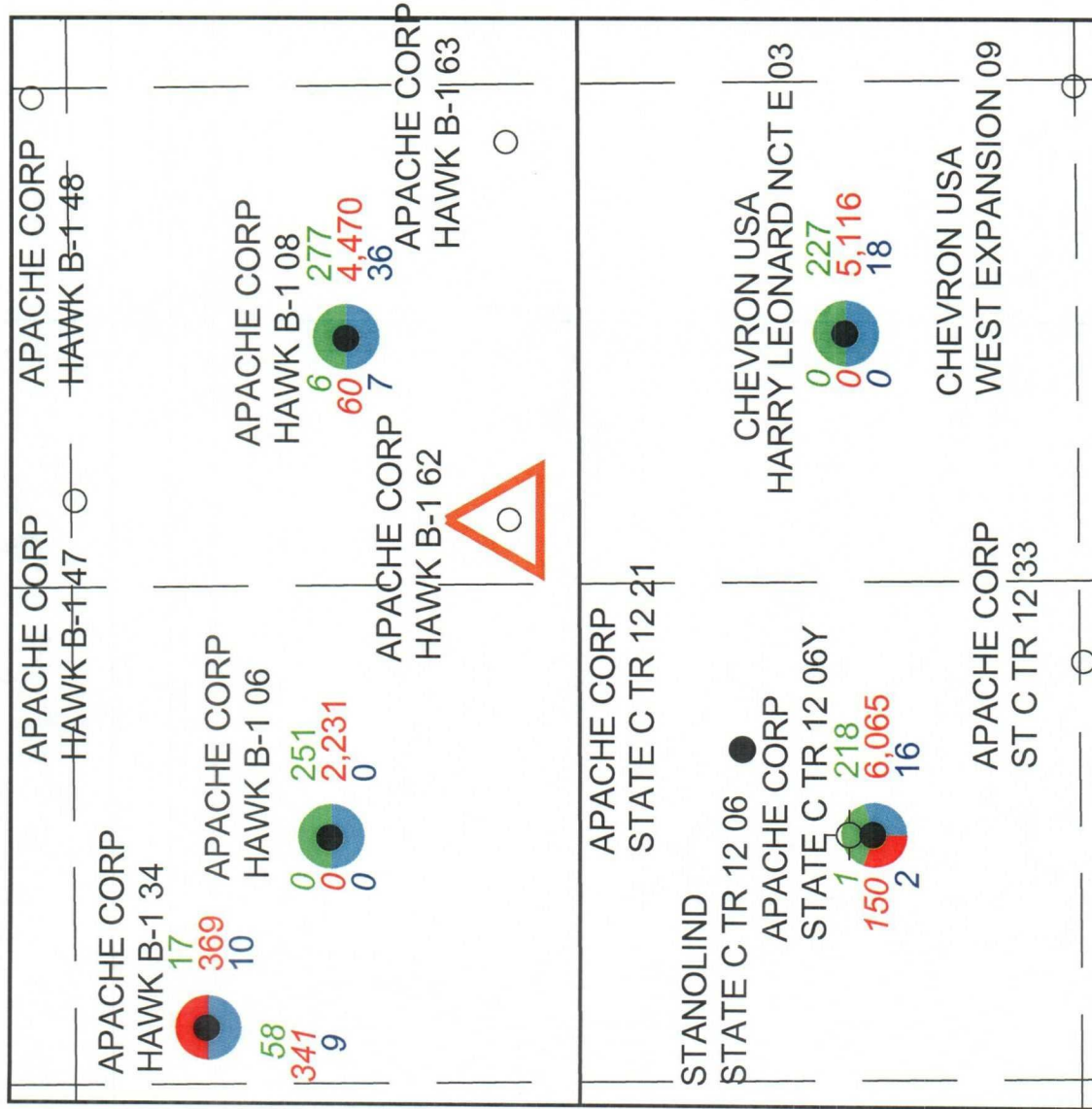
Bottom Hole Location If Different From Surface

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>SECTION 9 SECTION 16</p>	<p>GEODETIC COORDINATES NAD 27 NME</p> <p>Y=542689.5 N X=859660.7 E</p> <p>LAT.=32°29'11.61" N LONG.=103°10'01.02" W</p>	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that 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>DETAIL</p> <p>3494.4' 3487.5'</p> <p>600'</p> <p>3494.5' 3484.6'</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>JANUARY 19, 2006</p> <p>Date Surveyed _____ JR</p> <p>Signature &amp; Seal of Professional Surveyor _____</p> <p><i>Gary E. Eldson</i> 1/30/06</p> <p>06-11-0074</p>
		<p>Certificate No. GARY. ELDSON 12841</p>





# WELL SYMBOLS

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

# POSTED WELL DATA

OPERATOR  
WELL LABEL

CURRENT BOPD MBO  
CURRENT MCFL •  
CURRENT BWPD MBW



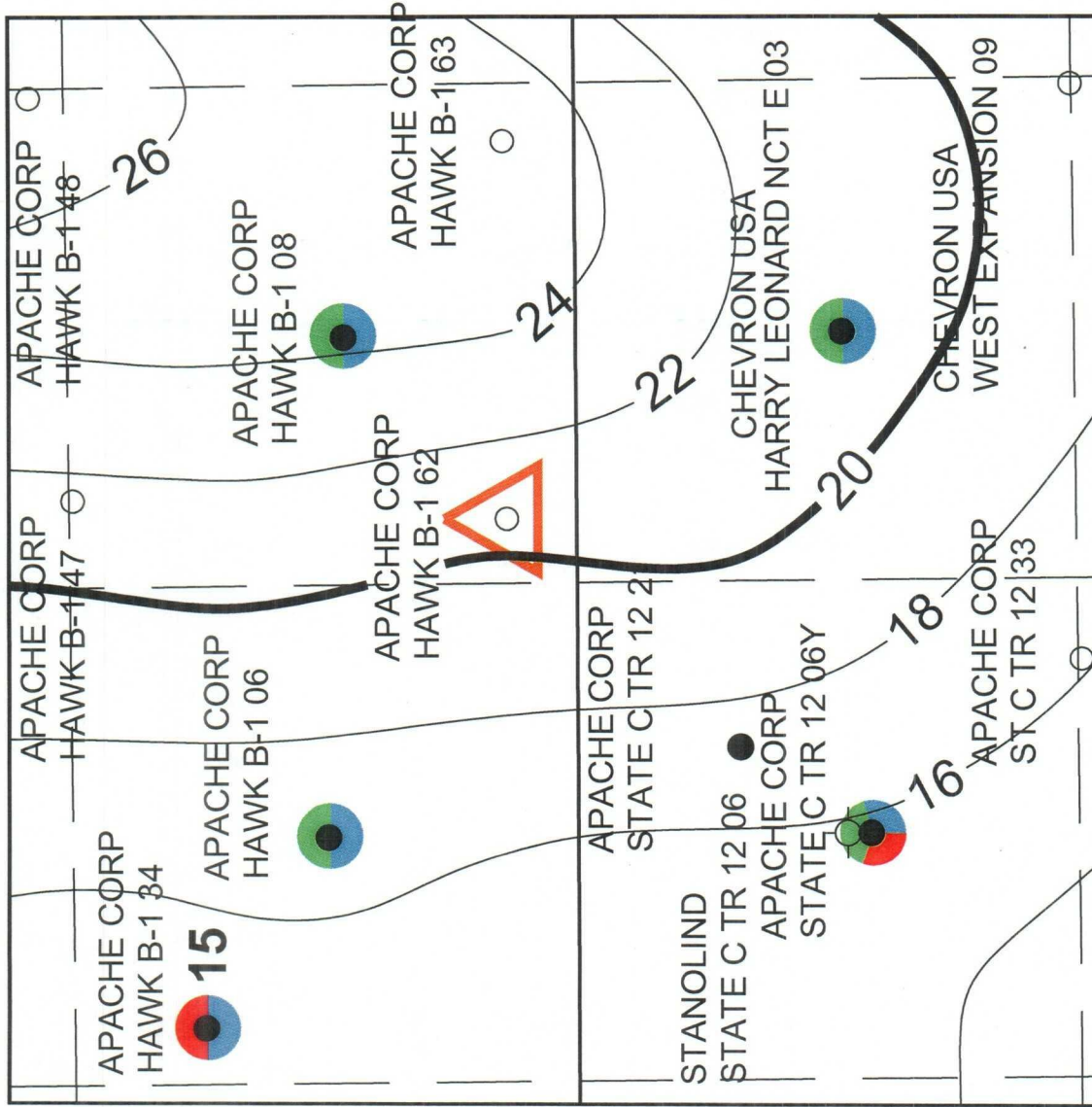
TWO WARREN PLACE, SUITE 1500  
6120 SOUTH YALE  
TULSA, OKLAHOMA 74136-4224

HAWK B-1 #62

SEC 9-T21S-R37E  
LEA COUNTY, NEW MEXICO

EXHIBIT 2  
WELL INFORMATION






### WELL SYMBOLS

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

### POSTED WELL DATA

OPERATOR  
WELL LABEL

**BTD SOPHIH •**

 <p>TWO WARREN PLACE, SUITE 1500 6120 SOUTH YALE TULSA, OKLAHOMA 74136-4224</p>	<p><b>HAWK B-1 #62</b></p>
<p>SEC 9-T21S-R37E LEA COUNTY, NEW MEXICO</p>	<p><b>EXHIBIT 3</b></p> <p><b>BTD SOPHIH</b></p>
<p>DATE: 3/9/06</p>	<p>DWG: CURTIS/BTD NSL 3-7-06 (EX3)</p>







**COOPERATIVE WELL AGREEMENT**  
**(for the Hawk B-1 #62 Well)**

This Cooperative Well Agreement ("Agreement"), is entered into and is effective as of May 1, 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".

**W I T N E S S E T H :**

**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/4SW/4SE/4, SE/4SE/4SW/4**
  
2. **State C Tract 12 Lease –**  
Lessor: State of New Mexico NM B-01557-2  
Lessee: Stanolind Oil & Gas Company  
Date: December 29, 1928  
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 16: NE/4NE/4NW/4**
  
3. **Leonard Lease –**  
Lessor: State of New Mexico NM B-01732-1  
Lessee: Chevron U.S.A. Inc.  
Date: February 28, 1933  
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 16: NW/4NW/4NE/4**

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

WHEREAS, Apache has 100% of the operating rights in and to the State C Tract 12 Lease;  
and

WHEREAS, Chevron has 100% of the operating rights in and to the Leonard Lease; and

WHEREAS, the Parties desire to drill and complete the **Hawk B-1 #62 Well** ("Cooperative Well") for the production of oil, gas and related hydrocarbons, insofar as it covers the Blinebry, Tubb and Drinkard formations, at a non-standard location encroaching on the lease line between the Hawk B-1 Lease in Section 9 and the State C Tract 12 Lease and Leonard Lease in Section 16 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 #62 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 #62 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 Drinkard Formation as follows:

**Hawk B-1 #62 Well:**

SURFACE LOCATION:	185' FSL & 2460' FEL, Sec. 9, T21S-R37E,
Lea County, New Mexico,	
Planned Total Depth:	6,900 feet, but in no event below the base of The Drinkard 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 #62 Well**, Exhibit A-1 to the NMFU Operating Agreement is amended to cover the **Hawk B-1 #62 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 Drinkard formation, by the below named Parties in the percentage shown opposite their name as follows:

Apache: .....	52.5950%
Chevron .....	33.7275%
BP .....	13.6775%

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 therefrom, 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 June 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, State C Tract 12 Lease and/or the Leonard 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 .....	54.71%
State C Tract 12 Lease .....	25.24%
Leonard Lease.....	20.05%

Each Party shall account for and administer its share of the Existing Burdens attributable to the Hawk B-1 Lease, State C Tract 12 Lease and/or the Leonard 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, State C Tract 12 Lease and the Leonard 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 State of New Mexico and 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 Officer of the Bureau of Land Management, and a Communitization Agreement covering production from the Cooperative Well has been approved by the Commissioner of Public Lands of the State of New Mexico. 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: \_\_\_\_\_

CHEVRON U.S.A. INC.

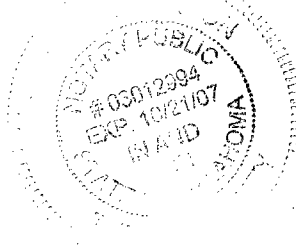
BUREAU OF LAND MANAGEMENT

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF OKLAHOMA §  
§  
COUNTY OF TULSA §

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



Michelle Dawson  
Notary Public, State of Oklahoma

STATE OF TEXAS §  
§  
COUNTY OF HARRIS §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 200\_\_, 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 \_\_\_\_\_, 200\_\_, by \_\_\_\_\_, \_\_\_\_\_ of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas

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

CHEVRON U.S.A. INC.

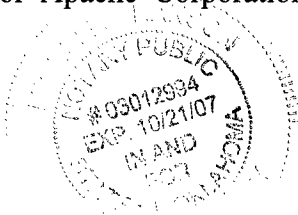
BUREAU OF LAND MANAGEMENT

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF OKLAHOMA §  
COUNTY OF TULSA §

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



Michelle Harrison  
Notary Public, State of Oklahoma

STATE OF TEXAS §  
COUNTY OF HARRIS §

This instrument was acknowledged before me this 12<sup>th</sup> 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 \_\_\_\_\_, 200\_\_, by \_\_\_\_\_ of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas

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 NW

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CHEVRON U.S.A. INC.

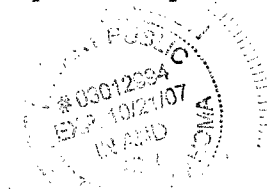
BUREAU OF LAND MANAGEMENT

By: D.A. Brelih  
Printed Name: D.A. BRELIH  
Title: ATTORNEY-IN-FACT

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF OKLAHOMA §  
§  
COUNTY OF TULSA §

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



Michelle Hanson  
Notary Public, State of Oklahoma

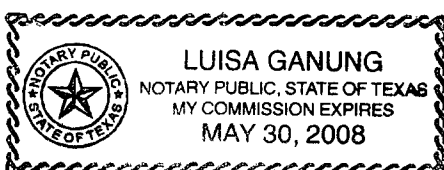
STATE OF TEXAS §  
§  
COUNTY OF HARRIS §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 200\_\_, 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 19<sup>th</sup> day of June, 2006, by D.A. Brelih 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 \_\_\_\_\_, 200 \_\_, by \_\_\_\_\_, Authorized Officer of the Bureau of Land Management on behalf of the Bureau of Land Management.

\_\_\_\_\_  
Notary Public, State of New Mexico

COMMUNITIZATION AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

STATE OF NEW MEXICO )  
COUNTY OF LEA )

THAT THIS AGREEMENT [which is NOT to be used for carbon dioxide or helium] is entered into as of May 1, 2006 by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978, in the interest of conservation of oil & gas and the prevention of waste to consent to and approve the development or operation of State lands under agreements made by lessees of oil & gas leases thereon, jointly or severally with other oil & gas lessees of State Lands, or oil and gas lessees or mineral owners of privately owned or fee lands, for the purpose of pooling or communitizing such lands to form a proration unit or portion thereof, or well-spacing unit, pursuant to any order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department where such agreement provides for the allocation of the production of oil or gas from such pools or communitized area on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the parties hereto, own working, royalty, or other leasehold interests or operating rights under the oil and gas leases and lands subject to this agreement, which leases are more particularly described in the schedule attached hereto, marked Exhibit "A" and made a part hereof, for all purposes; and

WHEREAS, said leases, insofar as they cover the Blinebry, Tubb and Drinkard formations (hereinafter referred to as "said formations") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well spacing program established for such formation in and under said lands; and

WHEREAS, the parties hereto desire to communitize and pool their respective interests in said leases subject to this agreement for the purpose of developing, operating and producing hydrocarbons in the said formation in and under the land hereinafter described subject to the terms hereof.

NOW THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the undersigned as follows:

1. The lands covered by this agreement (hereinafter referred to as the "communitized area") are described as follows:

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

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

Section 16: NE/4NE/4NW/4, NW/4NW/4NE/4

Lea County, New Mexico

Limited to production from the **HAWK B-1 #62**, located

185' FSL & 2460' FEL of said Section 9.

containing 40.00 acres, more or less. It is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of hydrocarbons from the said formation in and under said land is necessary and advisable in order to properly develop and produce the hydrocarbons in the said formation beneath the said land in accordance with the well spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and in order to promote the conservation of the hydrocarbons in and that may be produced from said formation in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover hydrocarbons within and that may be produced from the said formation (hereinafter referred to as "Communitized Substances") beneath the above-described land, into a single communitization, for the development, production, operation and conservation of the hydrocarbons in said formation beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit A showing the acreage, and ownership (Lessees of Record) of all leases within the communitized area.

2. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leases described in Exhibit "A" hereto in the proportion that the number of surface acres covered by each of such leases and included within the communitized area bears to the total number of acres contained in the communitized area.

3. Subject to Paragraph 4, the royalties payable on communitized substances allocated to the individual leases and the rentals provided for in said leases shall be determined and paid in the manner and on the basis prescribed in each of said leases. Except as provided for under the terms and provisions of the leases described in Exhibit "A" hereto or as herein provided to the contrary, the payment of rentals under the terms of said leases shall not be affected by this agreement; and except as herein modified and changed or heretofore amended, the oil and gas leases subject to this agreement shall remain in full force and effect as originally issued and amended.

4. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.

5. There shall be no obligation upon the parties hereto to offset any well or wells situated on the tracts of land comprising the communitized area, nor shall the Operator be required to measure separately the communitized substances by reason of the diverse ownership of the separate tracts of land comprising the said communitized area; provided, however, that the parties hereto shall not be released from their obligation to protect the communitized area from drainage of communitized substances by wells which may be drilled within offset distance (as that term is defined) of the communitized area.

6. The commencement, completion, and continued operation or production of a well or wells for communitized substances on the communitized area shall be considered as the commencement, completion, continued operation or production as to each of the leases described in Exhibit "A" hereto.

7. The production of communitized substances and disposal thereof shall be in conformity with the allocations, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State laws. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.

8. Apache Corporation shall be the Operator of said communitized area and all matters of operation shall be determined and performed by Apache Corporation.

9. This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Commissioner of Public Lands, shall remain in full force and effect for a period of one year from the date hereof and as long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that this agreement shall not expire if there is a well capable of producing gas in paying quantities located upon some part of the communitized area, if such a well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if either: (a) a shut-in royalty has been timely and properly paid pursuant to the provisions of one of the State of New Mexico oil and gas leases covering lands subject to this agreement so as to prevent the expiration of such lease; or (b) each of the State of New Mexico oil and gas leases covering lands subject to this agreement is in its primary term (if a five-year lease), or in its primary or secondary term (if a ten-year lease), or is held by production from another well. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands with respect to

any dry hole or abandoned well drilled upon the communitized area, this Agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence. As to lands owned by the State of New Mexico, written notice of intention to commence such operations shall be filed with the Commissioner within thirty (30) days after the cessation of such production, and a report of the status of such operations shall be made by the Operator to the Commissioner every thirty (30) days, and the cessation of such operations for more than twenty (20) consecutive days shall be considered as an abandonment of such operations as to any lease from the State of New Mexico included in this agreement.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and the Commissioner of Public Lands of the State of New Mexico, with any and all reports, statements, notices and well logs and records which may be required under the laws and regulations of the State of New Mexico.

11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representatives, shall have the right of supervision over all operations under the communitized area to the same extent and degree as provided in the oil and gas leases described in Exhibit "A" hereto and in the applicable oil and gas regulations of the State of New Mexico.

12. If any order of the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, upon which this agreement is predicated or based is in anyway changed or modified, then in such event said agreement is likewise modified to conform thereto.

13. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instruments, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

14. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.



LESSEE OF RECORD AND

OPERATOR: APACHE CORPORATION

By: John Swain

John Swain, Attorney-in-Fact

*MS*

LESSEE OF RECORD:

BP AMERICA PRODUCTION COMPANY

By: EM Siem

Title: Attorney-In-Fact

*EGB JB*

LESSEE OF RECORD:

CHEVRON U.S.A. INC.

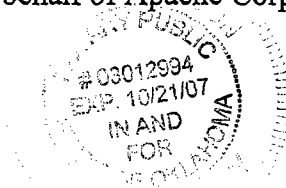
By: \_\_\_\_\_

Title: \_\_\_\_\_

**Acknowledgment in a Representative Capacity**

State of Oklahoma                    )  
  ) SS  
County of Tulsa                    )

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



Michelle Hansen

Notary Public, State of Oklahoma

My commission expires: 10/21/07

LESSEE OF RECORD AND

OPERATOR: APACHE CORPORATION

By: John Swain

John Swain, Attorney-in-Fact

*JS*

LESSEE OF RECORD:

BP AMERICA PRODUCTION COMPANY

By: \_\_\_\_\_

Title: \_\_\_\_\_

LESSEE OF RECORD:

CHEVRON U.S.A. INC.

By: D.A. Belch

Title: ATTORNEY-IN-FACT

**Acknowledgment in a Representative Capacity**

State of Oklahoma                    )  
  ) SS  
County of Tulsa                    )

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



Michelle Hanson

Notary Public, State of Oklahoma

My commission expires: 10/21/07

**Acknowledgment in a Representative Capacity**

State of Texas       )  
                              ) SS  
County of Harris     )

This instrument was acknowledged before me on this 12<sup>th</sup> day of July, 2006, by  
**E.M. Sierra**, as Attorney-in-Fact on behalf of BP America  
Production Company, a Delaware corporation.



Christie M. Smith

Notary Public, State of Texas

My commission expires: 5-21-2008

**Acknowledgment in a Representative Capacity**

State of Texas       )  
                              ) SS  
County of Harris     )

This instrument was acknowledged before me on this \_\_\_\_ day of \_\_\_\_\_, 2006, by  
\_\_\_\_\_, as Attorney-in-Fact on behalf of Chevron U.S.A.  
Inc., a Pennsylvania Corporation.

\_\_\_\_\_  
Notary Public, State of Texas

My commission expires: \_\_\_\_\_

**Acknowledgment in a Representative Capacity**

State of Texas            )  
                                  ) SS  
County of Harris        )

This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2006, by \_\_\_\_\_, as Attorney-in-Fact on behalf of BP America Production Company, a Delaware corporation.

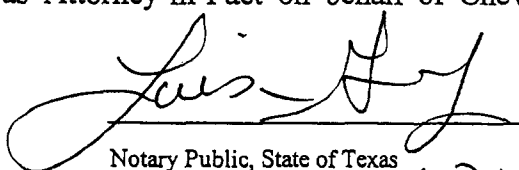
\_\_\_\_\_  
Notary Public, State of Texas

My commission expires: \_\_\_\_\_

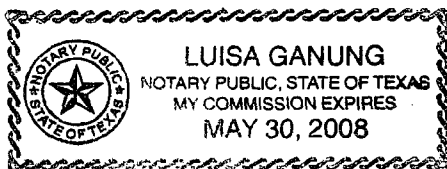
**Acknowledgment in a Representative Capacity**

State of Texas            )  
                                  ) SS  
County of Harris        )

This instrument was acknowledged before me on this 19<sup>th</sup> day of June, 2006, by D.A. Beelih, as Attorney-in-Fact on behalf of Chevron U.S.A. Inc., a Pennsylvania Corporation.

  
\_\_\_\_\_  
Notary Public, State of Texas

My commission expires: 5-30-08



## EXHIBIT A

To Communitization Agreement dated May 1, 2006, embracing the SW/4SW/4SE/4 and SE/4SE/4SW/4 of Section 9 and NE/4NE/4NW/4 and NW/4NW/4NE/4 of Section 16, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico.

Operator of Communitized Area:

Apache Corporation

### DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No.: The United States of America NM 90161

Lease Date: March 1, 1958

Lessor: United States of America

Original Lessee of Record: Estate of Wilbur C. Hawk

Present Lessee of Record: Apache Corporation  
BP America Production Company  
Chevron U.S.A., Inc.

#### Description of Land Committed:

Township 21 South, Range 37 East, Section 9: SW/4SW/4SE/4, SE/4SE/4SW/4

Number of Acres: 20.00

Royalty Rate: 12.5%

Name and Percent ORRI Owners: None

Name and Percent WI Owners: Apache Corporation (50%)  
BP America Production Company (25%)  
Chevron U.S.A., Inc. (25%)

Tract No. 2

Lease Serial No.: State of New Mexico NM B-01557-2  
Lease Date: December 29, 1928

Lessor: State of New Mexico acting by and through its Commissioner of  
Public Lands

Original Lessee of Record: Stanolind Oil & Gas Company

Present Lessee of Record: Apache Corporation

Description of Land Committed:

Township 21 South, Range 37 East, Section 16: NE/4NE/4NW/4

Number of Acres: 10.00

Royalty Rate: 12.5%

Name and Percent ORRI Owners: None

Name and Percent WI Owners: Apache Corporation (100%)

Tract No. 3

Lease Serial No.: State of New Mexico NM B-1732-1  
Lease Date: February 28, 1933

Lessor: State of New Mexico acting by and through its Commissioner of  
of Public Lands

Original Lessee of Record: Gypsy Oil Company

Present Lessee of Record: Chevron U.S.A. Inc.

Description of Land Committed:

Township 21 South, Range 37 East, Section 16: NW/4NW/4NE/4

Number of Acres: 10.00

ONLINE version  
December 2004

State/State  
State/Fee

Royalty Rate: 12.5%

Name and Percent ORRI Owners: None

Name and Percent WI Owners: Chevron U.S.A. Inc. (100%)

**RECAPITULATION**

<b>Tract number</b>	<b>Number of Acres Committed</b>	<b>Percentage of Interest In Communitized Area</b>
Lease No. 1	20.00	54.71%
Lease No. 2	10.00	25.24%
Lease No. 3	10.00	20.05%

# EXHIBIT "B"

To Communitization Agreement dated May 1, 2006

Plat of communitized area covering the SW/4SW/4SE/4 and SE/4SE/4SW/4 of Section 9 and the  
and NE/4NE/4NW/4 and NW/4NW/4NE/4 of Section 16, Township 21 South, Range 37 East,  
N.M.P.M, Lea County, New Mexico:

<p>Tract 1 Apache US NM 90161 SW/4</p> <p>S/2 Section 9</p>	<p>Tract 1 Apache US NM 90161 SE/4</p> <p>HAWK B-1 #62</p> <p>185' FSL</p> <p>2460' FEL</p>
<p>Tract 2 Apache B-01557-1 NW/4</p> <p>N/2 Section 16</p>	<p>Tract 3 Chevron B-1732-1 NE/4</p>



**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](mailto: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 8<sup>th</sup> 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.

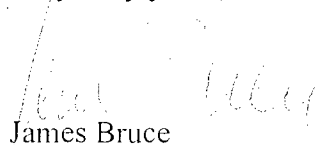
(c) In practical terms, the Division would never have allowed the wells to be drilled as close as they are to the lease lines without some type of sharing between leases, even if notice had been given to offsets. Mike Stogner stated to us that he would never have approved them. Therefore, approval of 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



PATRICK H. LYONS  
COMMISSIONER

*State of New Mexico*  
*Commissioner of Public Lands*

310 OLD SANTA FE TRAIL  
P.O. BOX 1148  
SANTA FE, NEW MEXICO 87504-1148

COMMISSIONER'S OFFICE

Phone (505) 827-5760

Fax (505) 827-5766

[www.nmstatelands.org](http://www.nmstatelands.org)

August 2, 2006

RECEIVED

AUG 6 7 2006

TULSA  
LAND DEPT.

Apache Corporation  
Two Warren Place, Suite 1500  
6120 South Yale  
Tulsa, Oklahoma 74136-4224

Attn: Michelle Hanson

Re: Communitization Agreement Approval (Blinebry, Tubb, Drinkard)  
Hawk B-1 Well No. 62  
SESESW, SWSWSE, Section 9, and NENENW, NWNWNE, Section 16  
Township 21 South, Range 37 East  
Lea County, New Mexico

Dear Ms. Hanson:

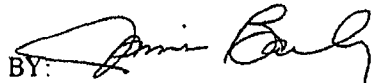
The Commissioner of Public Lands has this date approved the Hawk B-1 Well No. 62 Communitization Agreement for the Blinebry, Tubb, and Drinkard formations effective May 1, 2006. Enclosed are five Certificates of Approval.

The term of the agreement is for two years, and so long thereafter as communitized substances are produced or can be produced from the communitized area in paying quantities. Enclosed are five Certificates of Approval.

If we may be of further service, please contact Jeff Albers at (505) 827-5759.

Sincerely,

PATRICK H. LYONS  
COMMISSIONER OF PUBLIC LANDS

BY: 

JAMI BAILEY, Director  
Oil, Gas & Minerals Division  
(505) 827-5744  
PHL/JB/ja  
Enclosures

-State Land Office Beneficiaries -

Carrie Tingley Hospital • Charitable Penal & Reform • Common Schools • Eastern NM University • Rio Grande Improvement • Miners' Hospital of NM • NM Boys School • NM Highlands University • NM Institute of Mining & Technology • New Mexico Military Institute • NM School for the Deaf • NM School for the Visually Handicapped • NM State Hospital • New Mexico State University • Northern NM Community College • Penitentiary of New Mexico • Public Buildings at Capital • State Park Commission • University of New Mexico • UNM Saline Lands • Water Reservoirs • Western New Mexico University

**NEW MEXICO STATE LAND OFFICE**

**CERTIFICATE OF APPROVAL**

**COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO**

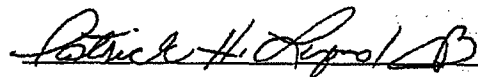
**Apache Corporation  
Hawk B-1 Well No. 62  
Lea County, New Mexico  
SESESW, SWSWSE, Section 9, and NENENW, NWNWNE Section 16, Township 21 South, Range 37 East  
Blinebry, Tubb, Drinkard**

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, a Communitization Agreement for the development and operation of acreage which is described within the referenced agreement, dated May 1, 2006 which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the State, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, 1, the undersigned Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 2nd day of August, 2006.



**COMMISSIONER OF PUBLIC LANDS**

**of the State of New Mexico**

**NEW MEXICO STATE LAND OFFICE**

**CERTIFICATE OF APPROVAL**

**COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO**

**Apache Corporation  
Hawk B-1 Well No. 62  
Lea County, New Mexico  
SESESW, SWSWSE, Section 9, and NENENW, NWNWNE Section 16, Township 21 South, Range 37 East  
Blinebry, Tubb, Drinkard**

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**COMMISSIONER OF PUBLIC LANDS**

**of the State of New Mexico**



# United States Department of the Interior

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

RECEIVED

JUN 08 2006

TULSA  
LAND DEPT.

IN REPLY REFER  
NM-116285  
3105.2 NM (513)

JUN 06 2006

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

Re: Cooperative Well Agreement  
Hawk B-1 #62  
SE/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 #62 well located at 185' FSL, 2460' FEL, Section 9, T. 21 S., R. 37 E., NMPM, Lea County, New Mexico. This agreement includes all oil and/or gas production from horizons encountered from the surface of the earth down to and including the base of the Drinkard formation. This agreement has been assigned Contract No. NMNM-116285.

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

Lease NMNM 90161	54.71%
State C Tract 12 Lease	25.24%
Leonard Lease	20.05%
Total	100.000%

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: 6/2/2006

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, State C Tract 12 Lease and the Leonard 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 State of New Mexico and 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 has been approved by the Authorized Officer of the Bureau of Land Management, and a Communitization Agreement covering production from the Cooperative Well has been approved by the Commissioner of Public Lands of the State of New Mexico.

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: \_\_\_\_\_

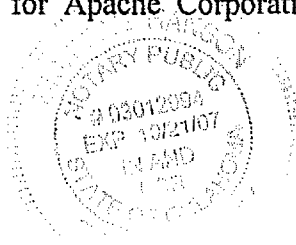


By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: Larry D. Bray  
Printed Name: LARRY D. BRAY  
Title: BEN LANDS AND MINERALS

STATE OF OKLAHOMA   §  
                                  §  
COUNTY OF TULSA   §

This instrument was acknowledged before me this 3 day of May, 2006, by John Swain, Attorney-In-Fact for Apache Corporation, a Delaware corporation, on behalf of said corporation.



Michelle Hanson  
Notary Public, State of Oklahoma

STATE OF TEXAS   §  
                                  §  
COUNTY OF HARRIS   §

This instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 200\_\_, 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 \_\_\_\_\_, 200\_\_, by \_\_\_\_\_ of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas