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March 17, 2005

**ROYALTY & OVERRIDING ROYALTY INTEREST OWNERS**  
(See Attached Owner List)

**RE: East Blinebry-Drinkard Unit**  
Sections 1, 11, 12, 13, & 14, T21S, R37E, Lea County, NM

Apache Corporation proposes unitizing the Blinebry, Tubb and Drinkard formations in Sections 1, 11, 12, 13, and 14 (totaling 2,080.00 acres) in T21S, R37E to perform secondary recovery operations through waterflooding of the Blinebry/Tubb/Drinkard reservoirs. As an active operator in this area, Apache Corporation will be the Operator of this Unit since Apache operates approximately 69% of the wells included within the boundaries of the proposed unit. This field is nearing depletion and without unitization and waterflooding, most of the wells will be abandoned in the near future. As a result, as a royalty and overriding royalty interest owner, Apache invites you to participate in Apache's proposal to form the East Blinebry-Drinkard Waterflood Unit.

The proposed area has cumulative primary production of 8.3 MMBO from the Blinebry, Tubb and Drinkard formations. Remaining primary production is 0.2 MMBO, yielding ultimate primary recovery of 8.5 MMBO. The majority of the wells in this area are low rate, downhole commingled producers, making less than 5 BOPD.

Geologic study indicates the productive intervals are laterally continuous, while production performance indicates the reservoir to be acting under a solution gas drive mechanism. Recoverable secondary reserves are estimated to be 3.7 MMBO, or 44% of the proposed primary recovery utilizing the existing well spacing to develop 80 acre five spot injection patterns. The total capital costs for this project are estimated to be \$2,400,000.00. The majority of the wellbores are still active and can be converted to injection without extensive well work.

Economic evaluation indicates said waterflood project will yield a 30% rate of return, 5.7MM\$ net present value, after income tax, and a development cost of less than \$1/barrel to the working interest owners. It will yield 6.2MM\$ of present value to the mineral and royalty interest owners and 4.4MM\$ of present value to the State of New Mexico in the form of tax revenues.

As a result of the aforementioned, enclosed for your review and further handling are the Unit Agreement and the Unit Operating Agreement for the East Blinebry-Drinkard Unit which has been executed on behalf of Apache Corporation. Exhibits A, B-1, B-2, B-3, and C are found at the end of the Unit Agreement. Exhibit "A" shows the proposed unitized area. Exhibit "B-1" describes each tract and its respective ownership, Exhibit "B-2" gives individual Unit participation of each tract, Exhibit "B-3" describes lease and tract participation factor and Exhibit "C" identifies the Unitized Formation.

BEFORE THE  
OIL CONSERVATION DIVISION  
Case No. Exhibit No. \_\_\_\_\_  
Submitted By: \_\_\_\_\_  
Apache Corporation  
Hearing Date: June 16, 2005

Apache Corporation respectively requests your early reply and concurrence in joining the proposed East Blinebry-Drinkard Unit as proposed. Also, for your information, Apache has received preliminary approval from the Bureau of Land Management (**majority royalty owner**) for Apache's proposed unit boundary and tract participation formula of said unit by letter dated January 13, 2005. Consequently, Apache now has the required 75% working interest owner and majority royalty interest owner approval needed to proceed forward in filing for statutory unitization for this project by the New Mexico Oil Conservation Division. The targeted date for initiating injection into this unit is set for the 4<sup>th</sup> Qtr 2005.

Should you have any questions pertaining to Apache's proposed project, please feel free to contact Larry Phillips at (432) 682-9162 or Michelle Hanson (918) 491-4838, for any Land questions or Kevin Mayes (Reservoir Engineer) at (918) 491-4972 for any Technical questions, otherwise **please execute one (1) original Ratification and Joinder signature page to the Unit and Unit Operating Agreements enclosed, have properly notarized, and return same to Larry Phillips** in the enclosed self-addressed envelope provided for your convenience within the next **twenty (20) days**. We look forward to your support in facilitating the implementation of this project.

APACHE CORPORATION

Mario R. Moreno, Jr.  
Senior Staff Landman

Encls: Unit Agreement  
Unit Operating Agreement  
Ratification and Joinder of  
Unit & Unit Operating Agreement  
Initial Plan of Operations

# ROYALTY AND OVERRIDING ROYALTY INTEREST OWNER LIST

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