

ABOVE THIS LINE FOR DIVISION USE ONLY

**NEW MEXICO OIL CONSERVATION DIVISION**  
 - Engineering Bureau -  
 1220 South St. Francis Drive, Santa Fe, NM 87505



**ADMINISTRATIVE APPLICATION CHECKLIST**

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 \_\_\_\_\_

2006 AUG 28 PM 12 48

- [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

*James Bruce* 8/28/06

**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](mailto:jamesbruc@aol.com)

August 28, 2006

Hand Delivered

Michael E. Stogner  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Dear Mr. Stogner:

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>	Gulf Hill Well No. 20
<u>Well Location:</u>	1330 feet FSL & 1440 feet FEL
<u>Well Unit:</u>	NW $\frac{1}{4}$ SE $\frac{1}{4}$ of irregular Section 4, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico

The well will test the Blinebry (Blinebry Oil and Gas Pool), Tubb (Tubb Oil and Gas Pool), and Drinkard (Drinkard Pool) formations, and applicant requests unorthodox location approval in all three zones. The Blinebry, Tubb, and Drinkard zones are expected to be oil productive.

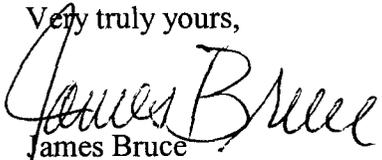
The application is based on geological and engineering reasons. A complete discussion, with exhibits, is attached as Exhibit A. The well is surrounded by Blinebry, Tubb, and Drinkard wells, and the proposed location will drain additional undrained reserves.

The well unit will be simultaneously dedicated to the proposed well and to the Gulf Hill Well No. 8, located 2630 feet FSL & 2310 feet FEL of Section 4 (this unorthodox location was previously approved).

Exhibit B is a land plat. The location encroaches on the Southland Royalty "A" Lease, which covers, among other lands, the NE $\frac{1}{4}$ SE $\frac{1}{4}$  and S $\frac{1}{2}$ SE $\frac{1}{4}$  of Section 4. Apache Corporation is the sole working interest owner of both the Gulf Hill Lease and the Southland Royalty "A" Lease, and has entered into the Cooperative Well Agreement attached as Exhibit C. Production from the proposed well will be allocated between the two leases as set forth in Exhibit C.

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

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce". The signature is written in black ink and is positioned above the printed name.

James Bruce

Attorney for Apache Corporation

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

40 acres – 1330 FSL & 1440' FEL  
 Section 4, 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 **Gulf Hill #20** well (**Exhibit 1**).
2. The proposed unorthodox location encroaches toward the following wells which are, or have been, 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
06401	Apache	Gulf Hill #1	04-J	Blinebry (06660)	45/3604/271	0/0/0
37463	Apache	Southland Royalty A #23	04-I	Blinebry (06660)	3/16/4	30/305/50
06397	Apache	Southland Royalty A #05	04-I	Blinebry (06660)	162/3392/42	1/7/12
06397	Apache	Southland Royalty A #05	04-I	Drinkard (19190)	128/1169/22	1/11/14
37031	Apache	Southland Royalty A #21	04-P	Blinebry (06660)	6/47/15	28/209/47
06396	Apache	Southland Royalty A #04	04-X	Blinebry (06660)	69/305/5	0/0/0
06396	Apache	Southland Royalty A #04	04-X	Tubb (60240)	35/3700/4	0/0/0
06396	Apache	Southland Royalty A #04	04-X	Drinkard 1(9190)	177/782/10	0/0/0
36314	Apache	Southland Royalty A #19	04-X	Drinkard (19190)	15/170/9	15/200/12
20069	Apache	Southland Royalty A #08	04-O	Blinebry (06660)	43/615/8	2/12/2
20069	Apache	Southland Royalty A #08	04-O	Tubb (60240)	40/1222/9	1/26/5
20069	Apache	Southland Royalty A #08	04-O	Drinkard (19190)	86/1313/16	4/34/2

MBO                      BOPD  
 MMCFG                MCFGPD  
 MBW                    BWPD

3. Apache expects the proposed **Gulf Hill #20** 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) There is a discrepancy on the OCD website as to the Unit location of Southland Royalty A #5, #21, and #23. They all visually appear to be located in the same governmental quarter-quarter section, but #5 and #23 are reported in Unit I,

**EXHIBIT A**

whereas #21 is reported in Unit P. The problem probably arises from §4 being a compensation section, containing approximately 960 A and being 1.5 miles in the north-south direction.

- b) There is a reporting discrepancy as to Blinebry production from Southland Royalty A #5. Records at the GOTECH website report that both oil and water production abruptly ceased in November 2005. Reported oil production dropped from 2.2 BOPD to 0 BOPD and water production dropped from 9.9 BWPD to 0 BWPD between October and November, thus making the well a gas well. Internal Apache data indicate the well is currently producing 1 BO, 7 MCFG, and 12 BW per day, so it is still an oil well.
  - c) Apache is currently applying to the OCD to have the pool boundary of North Eunice Blinebry-Tubb-Drinkard extended over this part of §4. When approved, both oil and gas wells would have 40 A units in the Blinebry, Tubb, and Drinkard, which would eliminate spacing conflicts caused by very marginal gas wells.
  - d) There is no well currently producing from the Blinebry, Tubb, and/or Drinkard in this 40 A drilling and spacing unit.
3. The proposed **Gulf Hill #20** location of 1330' from south line and 1440' 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. Although water saturations can be adequately estimated from offsetting modern wells, 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 and the others are estimated from the grid.

Op.	Well	Loc	Reservoir	SoPhiH FT	Area A	EUR MBO	EUR MMCFG
Apache	Gulf Hill #1	04-J	BTD	17.7	4	45	3604
<b>Apache</b>	<b>Southland Royalty A #23</b>	<b>04-I</b>	<b>BTD</b>	<b>15.1</b>	<b>4</b>	<b>41.8</b>	<b>805</b>
Apache	Southland Royalty A #05	04-I	BTD	16.6	27	290	4564
<b>Apache</b>	<b>Southland Royalty A #21</b>	<b>04-P</b>	<b>BTD</b>	<b>19.1</b>	<b>6</b>	<b>77</b>	<b>750</b>
Apache	Southland Royalty A #04	04-X	BTD	22.2	20	282	4787
<b>Apache</b>	<b>Southland Royalty A #19</b>	<b>04-X</b>	<b>BTD</b>	<b>22.3</b>	<b>3</b>	<b>45</b>	<b>760</b>
Apache	Southland Royalty A #08	04-O	BTD	20.0	13	169	3155

The proposed **Gulf Hill #20** 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 planimentering 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:

				SoPhiH	Area	EUR	EUR
Op.	Well	Loc	Reservoir	Ft	A	MBO	MMCFG
Apache	Gulf Hill #20	04-J	BTD	19.5	17.5	219	1752

4. **Notice**

Apache is the operator and only working interest owner of Blinebry, Tubb, and Drinkard wells toward which the proposed well will encroach. Thus, no other working interest owners need to be notified.

**Gulf Hill #20** is additionally a "leaseline" location. The Gulf Hill Lease and the Southland Royalty A Lease are both fee leases. Apache will enter into an appropriate Lease Line Agreement 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.

State of New Mexico

Energy, Minerals and Natural Resources Department

DISTRICT I  
1625 N. FRENCH DR., BOBBS, NM 86240

DISTRICT II  
1301 W. GRAND AVENUE, ARTESIA, NM 88210

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

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

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

WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number	Pool Code	Pool Name
Property Code	Property Name GULF HILL	Well Number 20
OGRID No.	Operator Name APACHE CORPORATION	Elevation 3468'

Surface Location

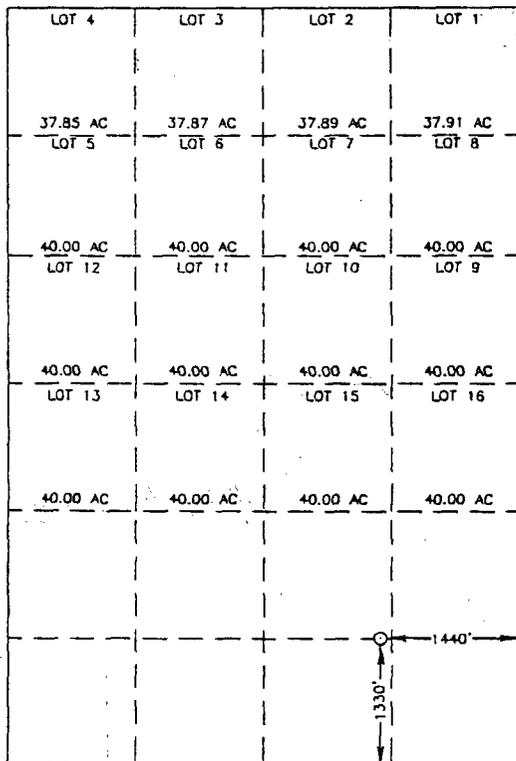
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
R	4	21-S	37-E		1330	SOUTH	1440	EAST	LEA

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.

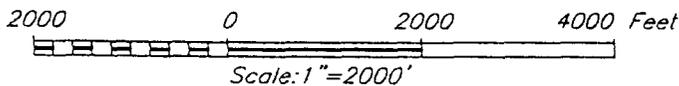
NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



GEODETIC COORDINATES  
NAD 27 NME

Y=549125.8 N  
X=860605.7 E

LAT.=32°30'15.19" N  
LONG.=103°09'49.17" W



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature

Printed Name

Title

Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

JANUARY 6, 2006

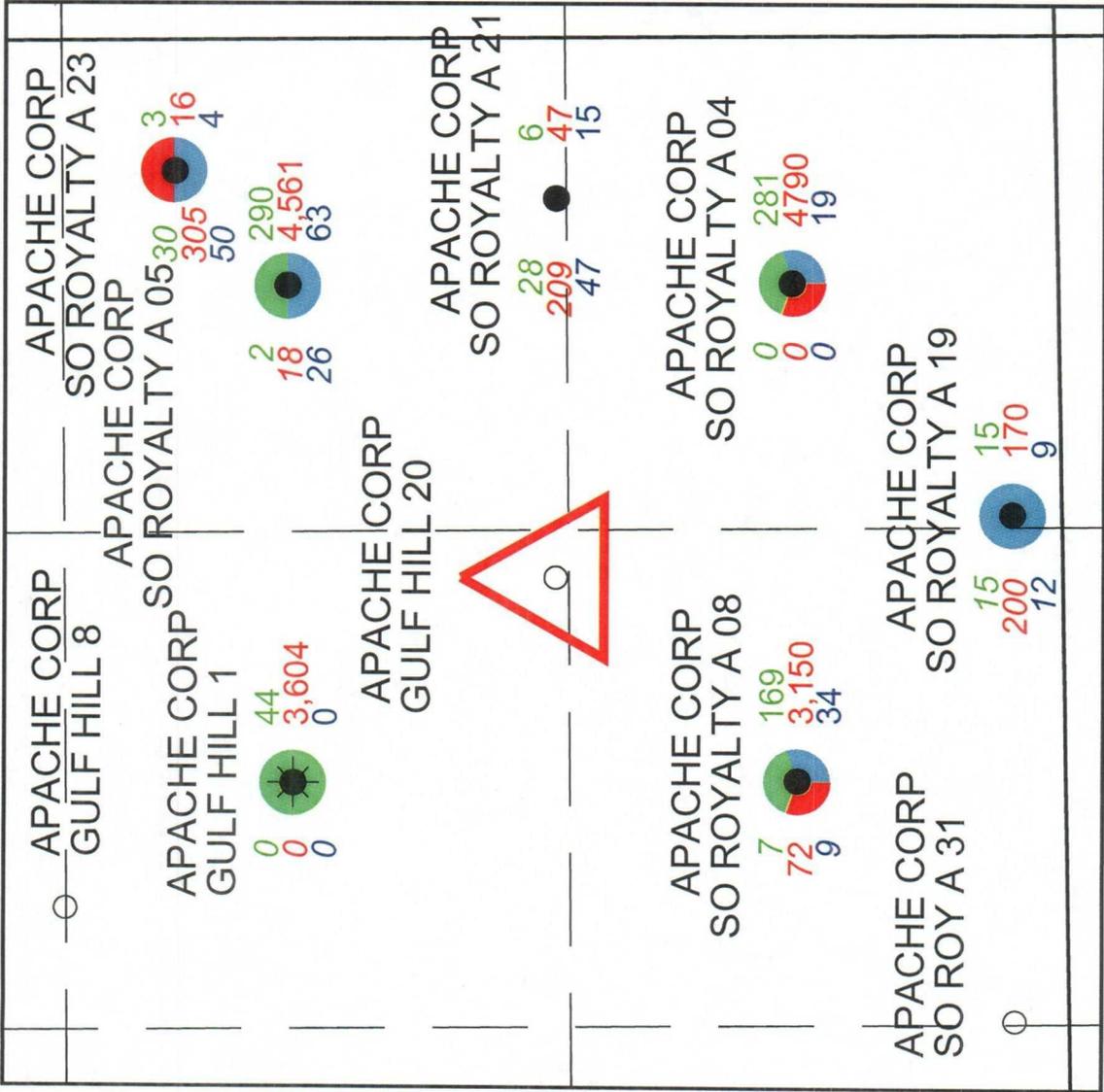
Date Surveyed REV: 1/23/06 JR

Signature & Seal of Professional Surveyor

*Gary E. Edson* 1/23/06

061100225

Certificate No. GARY EDSON 12641



- WELL SYMBOLS**
- Location Only
  - Oil Well
  - ☀ Gas Well
  - ⊖ Dry

**POSTED WELL DATA**

- OPERATOR**
- WELL LABEL**
  - CURRENT BOPD** (Green)
  - CURRENT MCFD** (Red)
  - CURRENT BWPD** (Blue)
  - MBO** (Green)
  - MMCFG** (Red)
  - MBW** (Blue)



**Apache**  
CORPORATION  
CENTRAL REGION

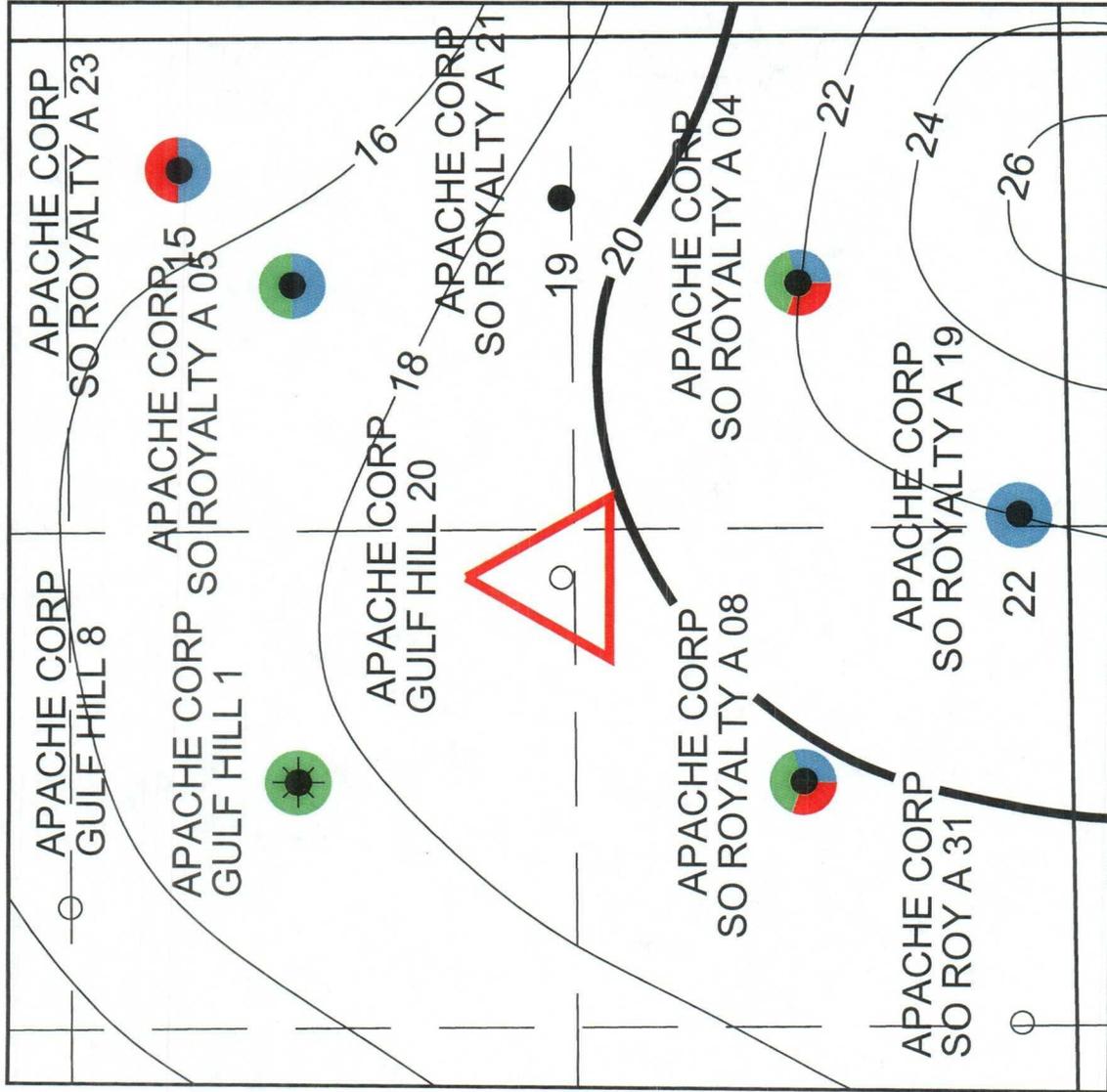
TWO WARREN PLACE, SUITE 1500  
6120 SOUTH YALE  
TULSA, OKLAHOMA 74136-4224

**GULF HILL #20**

**SEC 4-T21 S-R37E**  
**LEA COUNTY, NEW MEXICO**

**EXHIBIT 2**  
**WELL INFORMATION**

DATE: 4/4/06 DWG: CURTIS/BTD NSL 4-1-06 (EX2)



- WELL SYMBOLS**
- Location Only
  - Oil Well
  - ☀ Gas Well
  - ⊖ Dry

**POSTED WELL DATA**  
**OPERATOR**  
**WELL LABEL**

**BTD SOPHIH ●**

- BLINEBRY
- TUBB
- DRINKARD
- ABO



**Apache**  
CORPORATION  
CENTRAL REGION

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

**GULF HILL #20**

**SEC 4-T21S-R37E**  
**LEA COUNTY, NEW MEXICO**

**EXHIBIT 3**  
**BTD SOPHIH**

DATE: 4/4/06 DWG: CURTIS/BTD NSL 4-1-06 (EX2)



**COOPERATIVE WELL AGREEMENT**  
**(for the Gulf Hill #20 Well)**

This Cooperative Well Agreement ("Agreement") is entered into and is effective as of May 1, 2006, **APACHE CORPORATION**, whose address is 6120 South Yale Avenue, Suite 1500, Tulsa, Oklahoma 74136 ("Apache"). Apache is 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. Gulf Hill Lease –**

**Lessor: Elmer C. Hill et ux**

**Lessee: Gulf Oil Corporation**

**Date: November 6, 1944**

**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 4: SE/4NW/4SE/4**

**2. Southland Royalty "A" Lease –**

**Lessor: Southland Royalty Company, et al**

**Lessee: Stanolind Oil & Gas CO.**

**Date: September 22, 1942**

**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 4: SW/4NE/4SE/4, NW/4SE/4SE/4, NE/4SW/4SE/4**

**WHEREAS, Apache has 100% of the operating rights in and to the Gulf Hill Lease and the Southland Royalty A Lease; and**

**WHEREAS, the Parties desire to drill and complete the **Gulf Hill #20 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 Gulf Hill Lease and Southland Royalty A Lease in Section 4 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 **Gulf Hill #20 Well** as described hereinbelow.**

**NOW THEREFORE, the Parties hereby agree as follows:**

**1. DESIGNATION AND RESPONSIBILITIES OF OPERATOR**

**A. Apache is designated as operator ("Operator") of the **Gulf Hill #20 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:**

**Gulf Hill #20 Well:**

**SURFACE LOCATION: 1330' FSL & 1440' FEL, Sec. 4, T21S-R37E,  
Lea County, New Mexico,**

PLANNED TOTAL DEPTH: 6,975 feet, but in no event below the base of the Drinkard Formation plus one hundred (100) feet for operational purposes only.

C. 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 ..... 100.00%

All other operations conducted on the lands described above will not be affected by this Agreement.

## 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 and effect until such operations have been completed, with no cessation of more than 60 consecutive days, and if production results therefrom, this Agreement shall continue in full force and effect 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. Operator 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 Gulf Hill Lease and/or the Southland Royalty 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 Parties.

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, in Operator's opinion, such claim or suit is not amenable to or susceptible of settlement, Operator may upon delegation of such authority by the remaining Parties supervise the administration of said claim or suit employing Operator's staff attorneys or other attorneys as it may see fit to do so. 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 any 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 Cooperative Well 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:

Gulf Hill Lease ..... 34.42%  
Southland Royalty A Lease .....65.58%

Each Party shall account for and administer its share of the Existing Burdens attributable to the Gulf Hill Lease and/or the Southland Royalty 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 Gulf Hill Lease and the Southland Royalty 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 State of New Mexico. 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 a well test(s) 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 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 legal representatives 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.

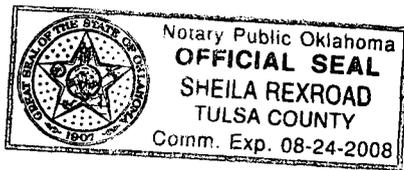
IN WITNESS WHEREOF, the Parties have caused the execution of this instrument to be effective on the date first above written.

APACHE CORPORATION

By: John Swain  
Printed Name: John Swain  
Title: Attorney In Fact *MS*

STATE OF OKLAHOMA §  
  §  
COUNTY OF TULSA §

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



Sheila Rexroad  
Notary Public, State of Oklahoma