BROOKS

DATE IN 9/11/06	SUSPENSE	ENGINEER M. STOGNER	LOGGED IN 9/11/06	TYPE NSL SD	APP NO. pTDSO625458153

ABOVE THIS LINE FOR DIVISION USE ONLY

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

State DN #22
16-21S-37E
State → Fed

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 SEP 11 AM 11 32

[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	James Bruce	Attorney for applicant	9/11/06
Print or Type Name	Signature	Title	Date

jamesbruc@aol.com
e-mail Address

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

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

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

jamesbruc@aol.com

September 11, 2006

Hand Delivered

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

Dear Mr. Fesmire:

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

Well Name:	State DA Well No. 22
Well Location:	2630 feet FSL & 2610 feet FWL
Well Unit:	NE¼SW¼ of Section 16, 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 State DA Well Nos. 2 and 12.

Exhibit B is a land plat. The location encroaches on State Lease B-1732-1, which covers the NE¼ of Section 16, and State Lease B-1557-2, which covers the NW¼ of Section 16. Apache Corporation is the working interest owner of the State DA Lease and Lease B-1557-2, and Chevron U.S.A. Inc. owns Lease B-1732-1. They 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 (53.87% to the State DA Lease, 22.20% to State Lease B-1732-1, and 23.93% 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 owner) 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.

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 – 2630 FSL & 2610' FWL
Section 16, 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 **State DA #22** 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.

Maljamar North Grayburg-San Andres Pool Order R-12538

API					Cum	Daily
30-025-	Op.	Well	Loc	Pool	O/G/W	O/G/W
06626	Apache	State C Tract 12 #4	16-F	Blinebry Oil	46/4754/14	5/118/22
06626	Apache	State C Tract 12 #4	16-F	Tubb Oil	18/400/19	1/45/1
06626	Apache	State C Tract 12 #4	16-F	Drinkard	212/2288/17	1/36/1
06620	Chevron	Leonard NCT E #1	16-G	Blinebry Oil	238/3249/15	0/0/0
06620	Chevron	Leonard NCT E #1	16-G	Drinkard	38/394/0	0/0/0
06618	Apache	State DA #3	16-J	Blinebry Oil	17/479/10	6/135/2
06618	Apache	State DA #3	16-J	Tubb Oil	34/3592/0	0/0/0
06618	Apache	State DA #3	16-J	Drinkard	137/1776/1	0/0/0
37201	Apache	State DA #12	16-K	Blinebry Oil	1/11/0	35/346/10
06616	Apache	State DA #2	16-K	Blinebry Oil	37/406/39	3/41/7
06616	Apache	State DA #2	16-K	Drinkard	196/1535/4	0/0/0

MBO BOPD
MMCFG MCFGPD
MBW BWPD

3. Apache expects the proposed **State DA # 22** 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) The State DA #4 well (Unit I) is placed in the Blinebry Gas Pool and is producing only a very marginal amount of gas from the Blinebry. **Exhibit 3** shows that it was given a non-standard "lay-down" 80 A peroration unit in March 1962.

EXHIBIT A

b) State DA #4 is perforated high in the Blinebry reservoir where more gas would be expected. **State DA #22** is expected to be structural low **(Exhibit 4)** to State DA #3 which produces from the Blinebry Oil Pool.
c) Apache's recently completion procedure has been to perforate the entire interval of both reservoirs, increasing the likelihood of oil.

4. The proposed **State DA #22** location of 2630' from south line and 2610' from west 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 is considered for well proposals. A combined Blinebry, Tubb, Drinkard map extracted from a larger area map is, therefore, presented (**Exhibit 5**).

The reservoir was analyzed by mapping hydrocarbon pore volume (SoPhiH) (**Exhibit 5**) 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 the porosity log. 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.

				SoPhiH	Area	EUR	EUR
Op.	Well	Loc	Reservoir	Ft	A	MBO	MMCFG
Apache	State C Tract 12 #4	16-F	BTD	14.0	31	277	7460
Chevron	Leonard NCT E #1	16-G	BTD	16.6	26	276	3943
Apache	State DA #3	16-J	BTD	17.4	17	188	5860
Apache	State DA #12	16-K	BTD	18.7	4	51	803
Apache	State DA #2	16-K	BTD	15.1	32	233	1945

The proposed **State DA #22** is a "true" 20 Acre infill location between existing Blinebry, Tubb, and Drinkard producers. It is approximately equidistant from those wells and is designed to recover reserves that cannot be recovered by the existing wells. 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:

				SoPhiH	Area	EUR	EUR
Op.	Well	Loc	Reservoir	Ft	A	MBO	MMCFG
Apache	**State DA #22**	16-K	BTD	15.1	16	150	1200

4. Notice

Apache is the operator and 100% working interest owner of the State DA and State C Tract 12 Blinebry, Tubb, and Drinkard wells and Chevron is the operator and 100% working interest owner of the Harry Leonard NTC E Blinebry, Tubb, and Drinkard wells toward which the proposed well will encroach. Chevron will be notified at:

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

State DA #22 is additionally a "leaseline" location. The three leases involved, State DA, State C Tract 12, and Harry Leonard NTC E, are all New Mexico State leases. Apache will enter into an appropriate Lease Line Agreement with Chevron 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.

EXHIBIT 1

State of New Mexico
Energy, Minerals and Natural Resources Department

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

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

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

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

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	Well Number
	STATE DA	22

OGRID No.	Operator Name	Elevation
	APACHE CORPORATION	3464'

Surface Location

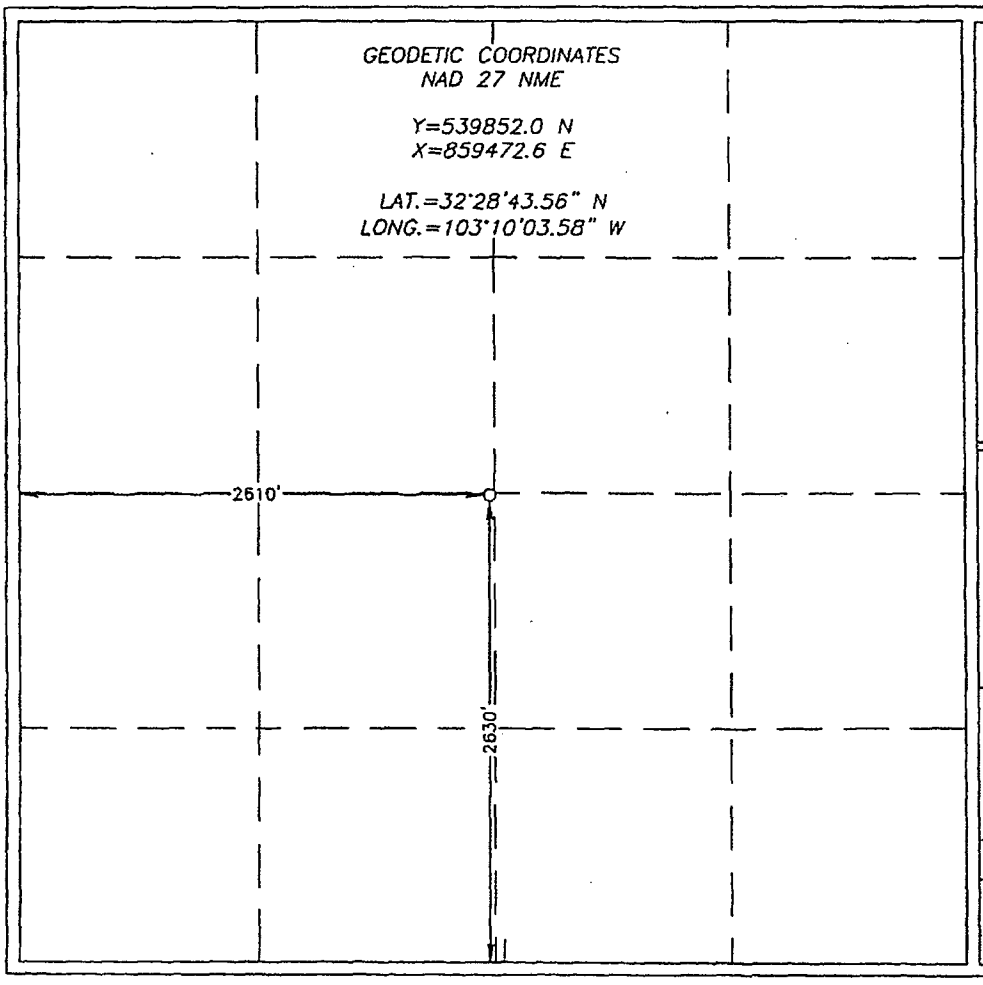
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
K	16	21-S	37-E		2630	SOUTH	2610	WEST	LEA

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

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



OPERATOR CERTIFICATION

I hereby certify the 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 supervison, and that the same is true and correct to the best of my belief.

DECEMBER 19, 2005

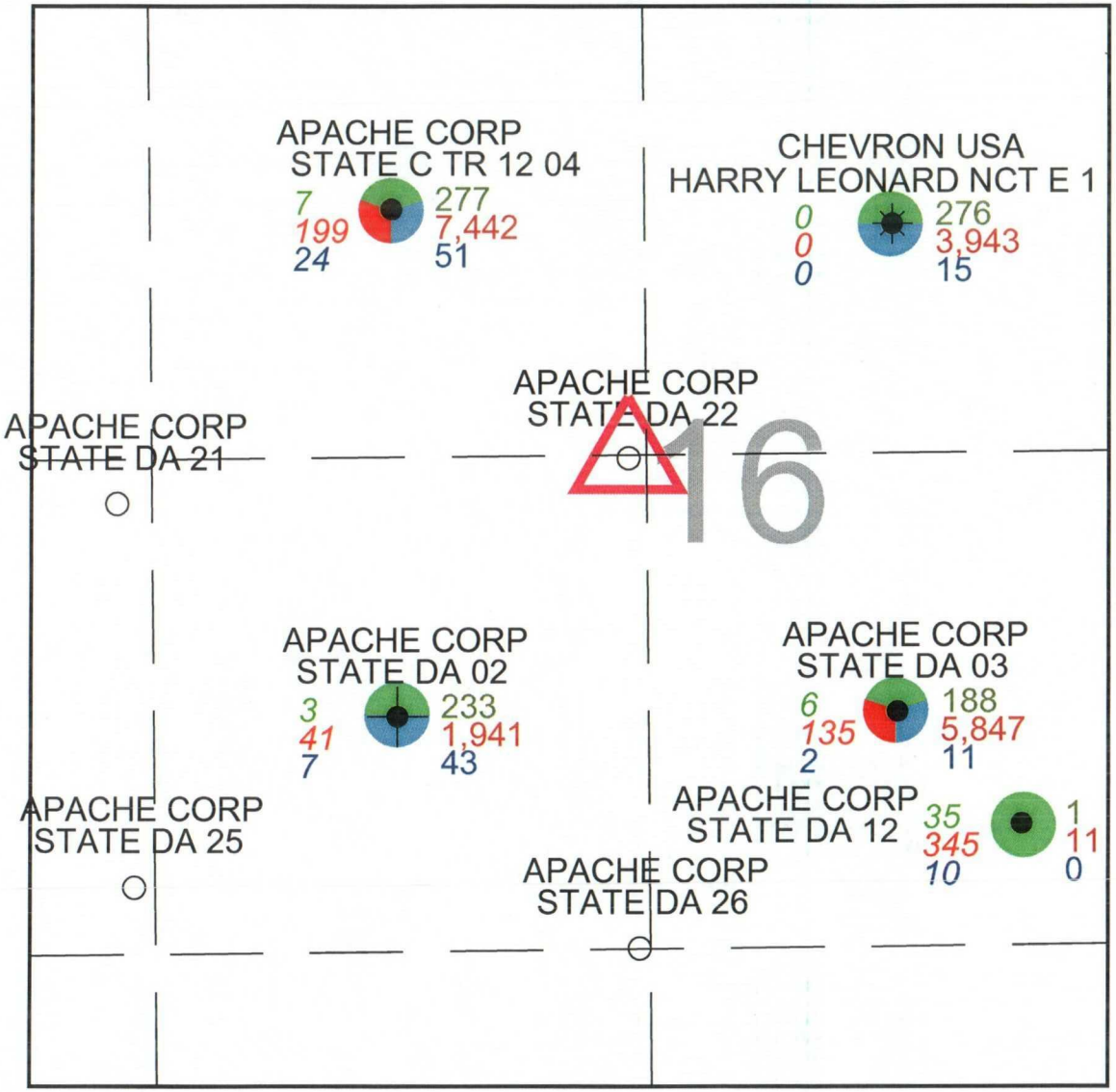
Date Surveyed JR

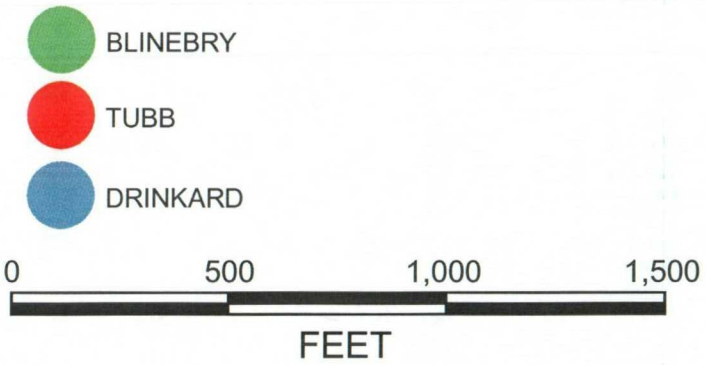
Signature & Seal of Professional Surveyor

RONALD J. EIDSON
NEW MEXICO
05.11.1983
REGISTERED PROFESSIONAL SURVEYOR

01/06/06

Certificate No. GARY EIDSON 12641
RONALD J. EIDSON 3239





WELL SYMBOLS

- Location Only
- Oil Well
- Gas Well
- Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

CURRENT BOPD • MBO
CURRENT MCFD • MMCFG
CURRENT BWPD • MBW

Apache CORPORATION
CENTRAL REGION

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

STATE DA 22

SEC 16-T21S-R37E
LEA COUNTY, NEW MEXICO

EXHIBIT 2

WELL INFORMATION

DATE: 2/10/06 DWG: CURTIS\BTD NSL\WELL (EX2)

EXHIBIT 3

NEW MEXICO
L CONSERVATION COMMISSI

Form C-128

Well Location and/or Gas Proration Plat

Date March 7, 1962

Operator Amerada Petroleum Corporation Lease State DA

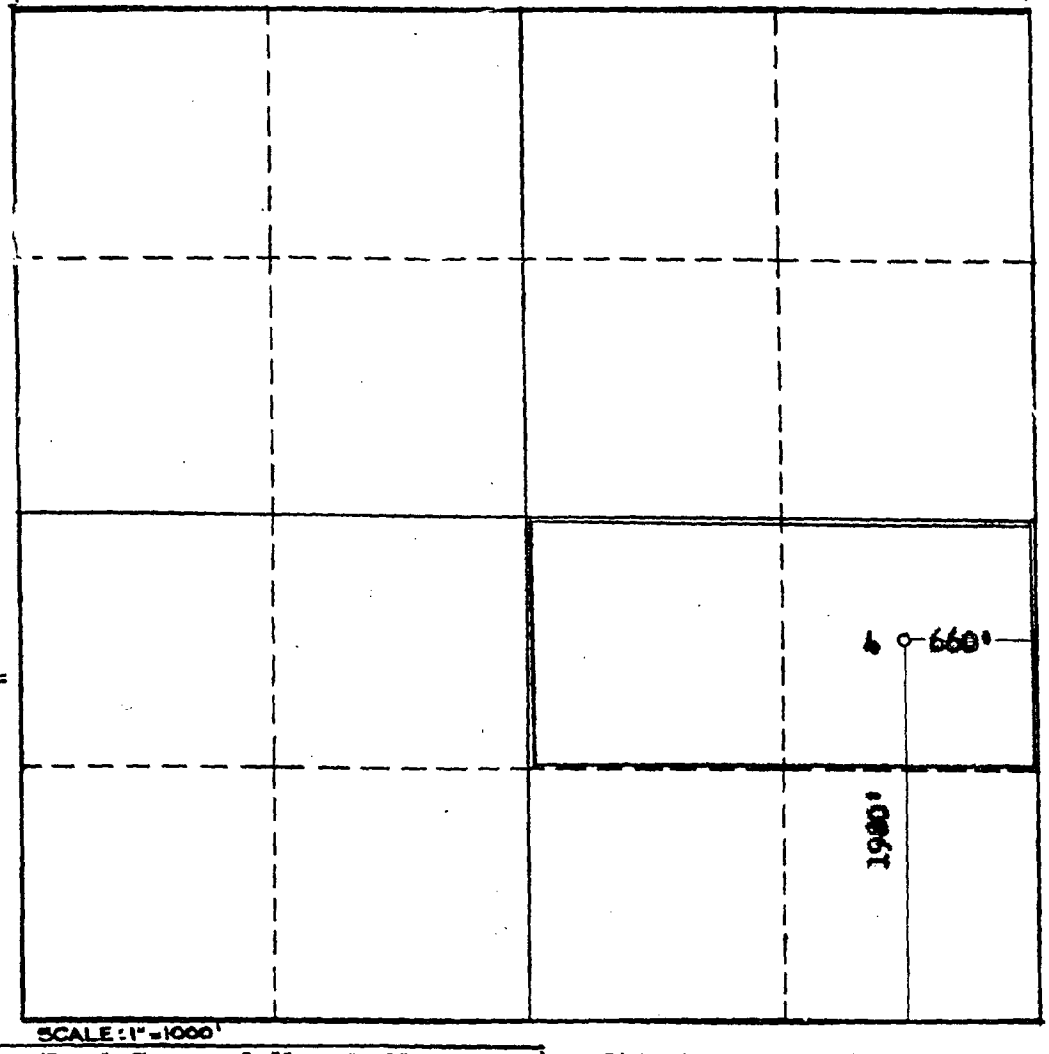
Well No. 4 Section 16 Township 21 S Range 37 E NMI

Located 1980' Feet From S Line, 660 Feet From E L

Lea County, New Mexico. G. L. Elevation 3466

Name of Producing Formation Blinebry Pool Blinebry Gas Dedicated Acreage 4

(Note: All distances must be from outer boundaries of Section)



NOTE
This section of form is to be used for gas wells only.

1. Is this Well a Dual Comp. ? Yes X No ___.

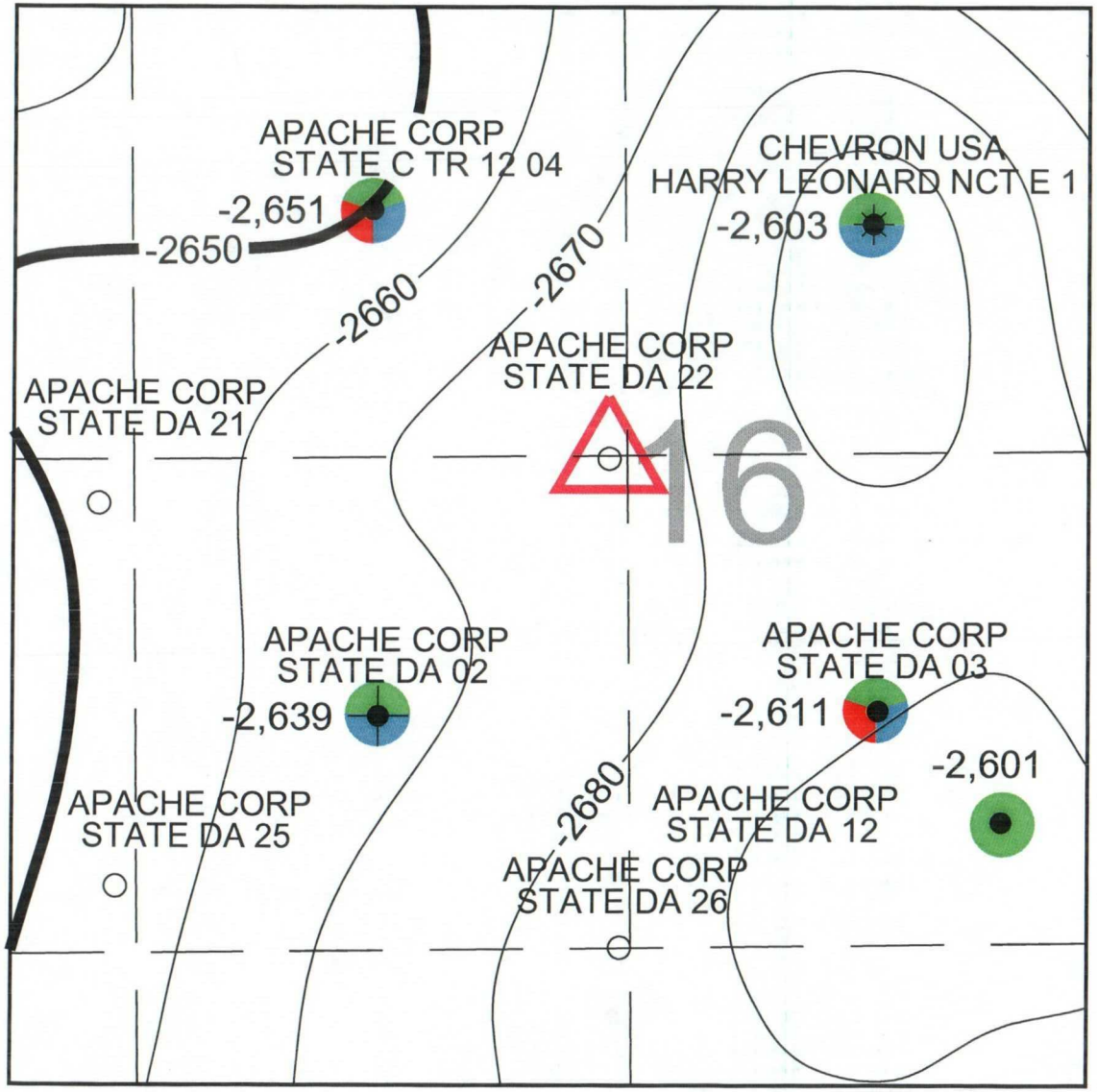
2. If the answer to Question 1 is yes, are there any other dually completed wells within the dedicated acreage? Yes ___ X No ___.

Name D. C. Cappe D.C. Cappe
Position District Superintendent
Representing Amerada Petroleum Corporation
Address Drawer "D", Monument, New Mexico

This is to certify that the above plat was prepared from field notes of actual surve made by me or under my supervision and that the same are true and correct to the best of my knowledge and belief.

Date Surveyed ___

Registered Professional Engineer and/o Land Surveyor



-2,642

WELL SYMBOLS

- Location Only
- Oil Well
- Gas Well
- Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

TOP TUBB ●

BLINEBRY

TUBB

DRINKARD

0 500 1,000 1,500

FEET

Apache CORPORATION
CENTRAL REGION

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

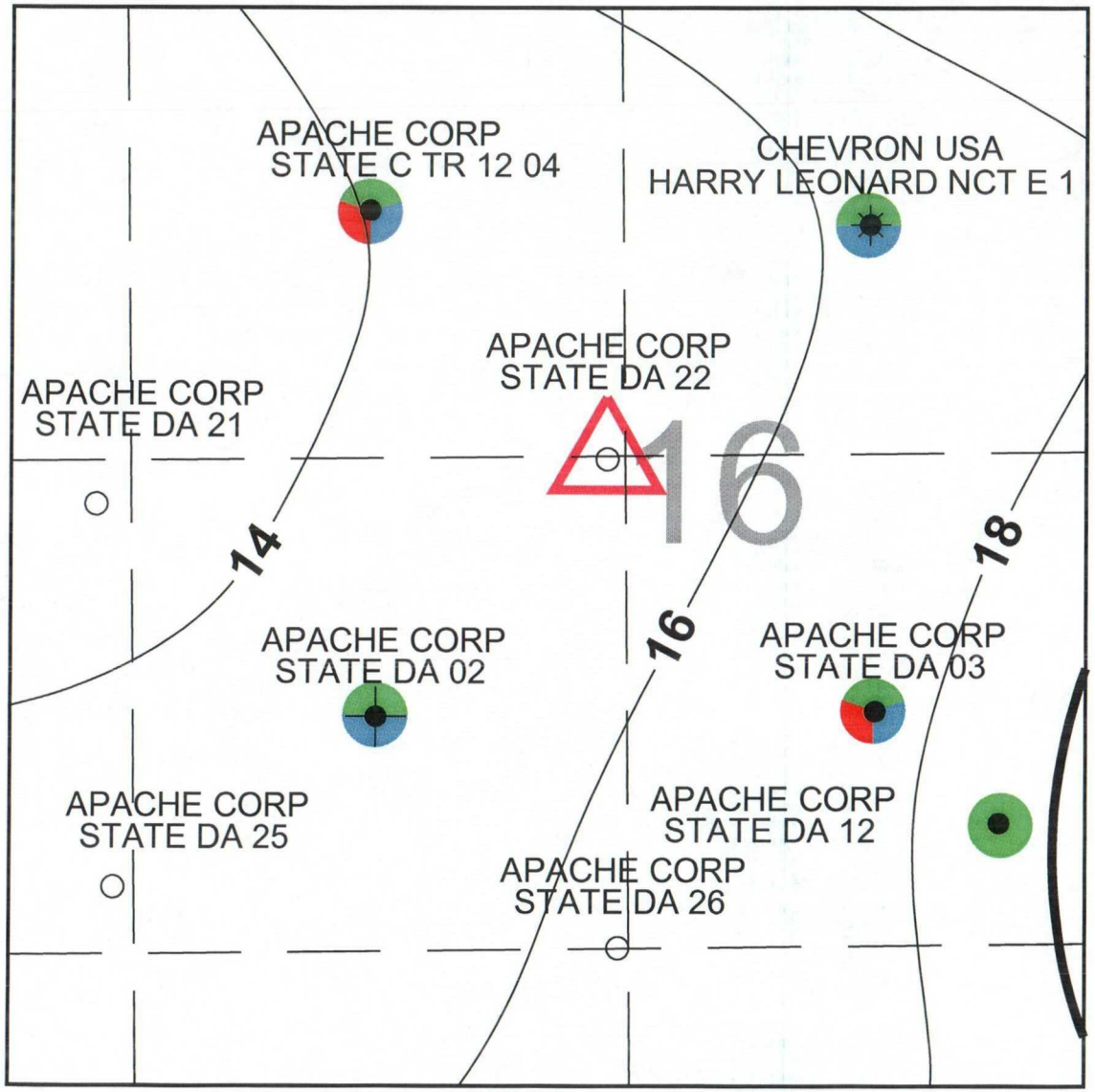
STATE DA 22

SEC 16-T21S-R37E
LEA COUNTY, NEW MEXICO

EXHIBIT 4

STRUCTURE TOP TUBB

DATE: 2/15/06 DWG: CURTIS\BTD NSL\WELL (EX2)



BLINEBRY

TUBB

DRINKARD

0 500 1,000 1,500

FEET

WELL SYMBOLS

- Location Only
- Oil Well
- Gas Well
- Dry

POSTED WELL DATA

OPERATOR
WELL LABEL

BTD SOPHIH •

Apache CORPORATION
CENTRAL REGION

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

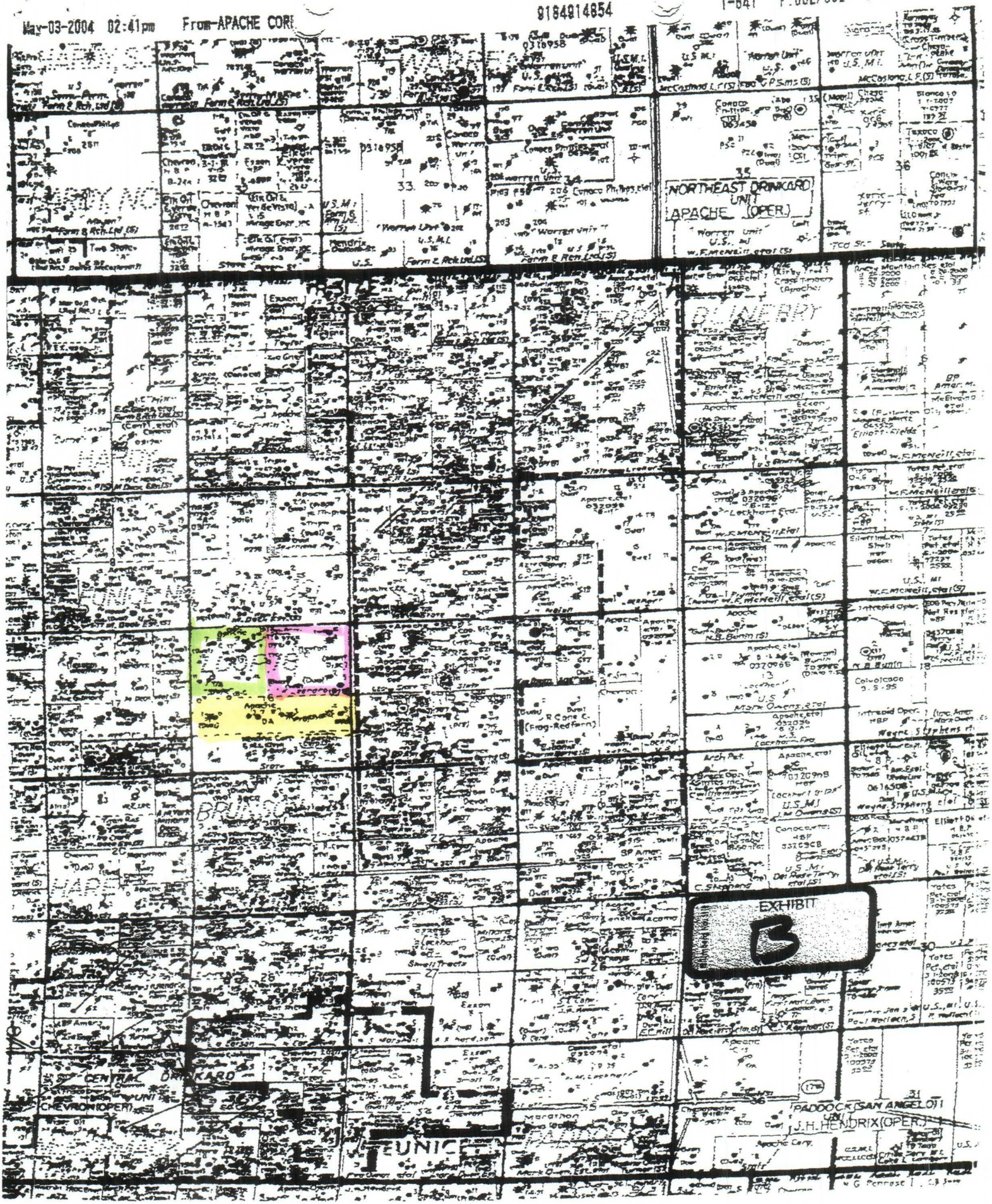
STATE DA 22

SEC 16-T21S-R37E
LEA COUNTY, NEW MEXICO

EXHIBIT 5

BTD SOPHIH

DATE: 2/15/06 DWG: CURTIS\BTD NSL\WELL (EX2)


NORTHEAST DRINKARD UNIT
APACHE (OPER.)
EXHIBIT
B
CENTRAL DRINKARD UNIT
CHEVRON (OPER.)
PADDOCK (SAN ANGELO)
UNIT
J.H. HENDRIX (OPER.)

COOPERATIVE WELL AGREEMENT
(for the State DA #22 Well)

This Cooperative Well Agreement ("Agreement"), is entered into and is effective as of May 1, 2006, between, **APACHE CORPORATION** whose address is 6120 South Yale Avenue, Suite 1500, Tulsa, Oklahoma 74136 ("Apache"), **CHEVRON U.S.A., INC** whose address is 11111 S. Wilcrest, Houston TX 77099 ("Chevron"). Apache and Chevron U.S.A. Inc. 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. **State DA Lease –**
   Lessor: State of New Mexico NM B-85-16
   Lessee: Los Angeles-New Mexico Oil Company
   Date: July 28, 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/4N/2SW/4 and NW/4NW/4N/2SE/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: SE/4SE/4NW/4

3. **Leonard Lease –**
   Lessor: State of New Mexico NM B-1732-1
   Lessee: Gypsy Oil Company
   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: SW/4SW/4NE/4

WHEREAS, Apache has 100% of the operating rights in and to the State DA Lease and 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 **State DA #22 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 State DA Lease, the State C Tract 12 Lease and the 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 **State DA #22 Well** as described hereinbelow.

NOW THEREFORE, the Parties hereby agree as follows:

EXHIBIT C

1. **DESIGNATION AND RESPONSIBILITIES OF OPERATOR**

A. Apache is designated as operator ("Operator") of the **State DA #22 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:

State DA #22 Well:

SURFACE LOCATION:	2630' FSL & 2610' FWL, Sec. 16, T21S-R37E, Lea County, New Mexico,
PLANNED TOTAL DEPTH:	6,875 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 an Operating Agreement ("Cooperative Well Operating Agreement") attached hereto as Exhibit "A" ", specifically including, but not limited to, the insurance and indemnification provisions of the Agreement. As between the Parties there is and shall be no cross-assignment or other transfer of title to any interests of the Parties in the Properties as a result of this Agreement. This Agreement and the Cooperative Well Operating Agreement are merely contractual arrangements among the Parties to drill, equip, test, operate and produce the Cooperative Well. Chevron, shall, at its sole cost and risk, have access to the Cooperative Well location at all reasonable times to inspect or observe operations and to gather information pertaining to the development and operation of the Cooperative Well. 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 Cooperative Well Operating Agreement. Operator, upon request, shall furnish 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 Chevron samples of any cores or cuttings taken from the Cooperative Well. The cost of gathering and furnishing information to Chevron, other than that specified above, shall be charged to 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, Cooperative Well 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	77.80%
Chevron	22.20%

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

If any provision of Exhibit "C" - Accounting Procedure of the Cooperative Well Operating Agreement 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 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 and the Cooperative Well Operating Agreement, if the actual drilling operations for the Cooperative Well are not commenced on or before June 1, 2007, then this Agreement and the Cooperative Well Operating Agreement shall both 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 State DA Lease, the 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 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 the amount required for settlement exceeds the amount hereinabove set out, Operator shall give notice to Chevron of its intent to settle for such higher amount, and if Chevron agrees 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 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, 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 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:

State DA Lease	53.87%
State C Tract 12 Lease	23.93%
Leonard Lease	22.20%

Each Party shall account for and administer its share of the Existing Burdens attributable to the State DA Lease, the 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 State DA Lease, the 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. 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, and the operations contemplated hereunder, 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 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

CHEVRON U.S.A. INC.

By:_____
Printed Name:_____
Title:_____

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, and the operations contemplated hereunder, 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 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

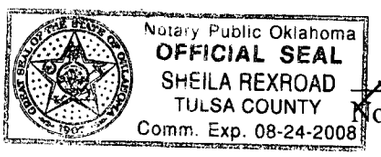
By: John Swain
Printed Name: John Swain
Title: Attorney In Fact

CHEVRON U.S.A. INC.

By: D.A. Brelih
Printed Name: D.A. Brelih
Title: Attorney-in-Fact

STATE OF OKLAHOMA §
§
COUNTY OF TULSA §

This instrument was acknowledged before me this 13th 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

STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this ____ day of _____, 200__, by _____ as _____ of Chevron U.S.A. Inc., a _____ corporation, on behalf of said corporation.

_____
Notary Public, State of _____

STATE OF OKLAHOMA §
§
COUNTY OF TULSA §

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

Notary Public Oklahoma
OFFICIAL SEAL
SHEILA REXROAD
TULSA COUNTY
Comm. Exp. 08-24-2008

Sheila Rexroad
Notary Public, State of Oklahoma

STATE OF TEXAS §
§
COUNTY OF HARRIS §

This instrument was acknowledged before me this 29th day of June, 2006, by D. A Brelin as Attorney-in-Fact of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.

Luisa Ganung
Notary Public, State of Texas

LUISA GANUNG
NOTARY PUBLIC, STATE OF TEXAS
MY COMMISSION EXPIRES
MAY 30, 2008

EXHIBIT "A"

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

STATE DA #22 WELL

OPERATING AGREEMENT

DATED

May 1 , **2006** ,
year

OPERATOR **Apache Corporation**

CONTRACT AREA **SE/4SE/4NW/4, SW/4SW/4NE/4, NE/4NE/4N/2SW/4 and NW/4NW/4N/2SE/4 Of Section 16, Township 21 South, Range 37 East, N.M.P.M.**

COUNTY OR PARISH OF **Lea** STATE OF **New Mexico**

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between **Apache Corporation**, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☑ A. Exhibit "A", shall include the following information:

(1) Identification of lands subject to this agreement,

(2) Restrictions, if any, as to depths, formations, or substances,

(3) Percentages or fractional interests of parties to this agreement,

(4) Oil and gas leases and/or oil and gas interests subject to this agreement,

(5) Addresses of parties for notice purposes.

☑ C. Exhibit "C", Accounting Procedure.

☑ D. Exhibit "D", Insurance.

☑ E. Exhibit "E", Gas Balancing Agreement.

☑ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☑ ~~G. Exhibit "G", Tax Partnership~~.

If any provision of any exhibit, except Exhibits "E" and "D" ~~"G"~~, is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of **one-eighth** which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease or the interest of any consenting party in wells/production covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and ~~is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties~~ (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

ARTICLE IV
continued

☑ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,~~

~~(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;~~

~~(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;~~

~~(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;~~

~~(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,~~

~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.~~

~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

~~(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;~~

~~(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and,~~

~~(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

3. Other Losses: All losses incurred, ~~other than those set forth in Articles IV.B.1. and IV.B.2. above~~, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Apache Corporation shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of ~~two (2) or more~~ Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" ~~remaining after excluding the voting interest of Operator.~~ Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of ~~two (2) or more~~ parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of ~~two (2) or more~~ parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of June, *(year)* 2007, Operator shall commence the drilling of a well for oil and gas at the following location:

2630' FSL & 2610' FWL of Section 16, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 6,875 feet below the surface, but in no event below the base of the Drinkard Formation, plus 100 feet for operational purposes only,

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI
continued

~~If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.~~

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to ~~drill any well on the Contract Area other than the well provided for in Article VI.A., or to~~ rework, deepen or plug back the well provided for in Article VI.A., if it is ~~a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and~~ not then producing in paying quantities, the party desiring to ~~drill,~~ rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have ~~thirty (30)~~ sixty (60) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of ~~thirty (30)~~ sixty (60) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of ~~thirty (30)~~ sixty (60) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (~~inclusive~~ exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. * If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

* Subject to VI.E.3.

ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) **300** % of that portion of the costs and expenses of ~~drilling,~~ reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and **300** % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

Notwithstanding any language under Article VI.B. to the contrary, in any well in which a completion attempt may be made at more than one depth, each party who participated in the initial drilling or the deepening operation hereto shall have the right to make a separate election as to each interval in which a completion is proposed. Should a party hereto elect not to participate in a completion attempt as to any one interval, then those parties who elect to participate in the completion attempt as to that interval, shall, in the proportions they have elected to bear, share all costs, risks and expenses and penalty of such completion attempt. Any recoupment of said expenses shall be made solely from the production attributable to that interval. Election by a previous Non-Consenting Party to participate in a subsequent Completion or Recompletion attempt shall require such party to pay its proportionate share of salvable materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a Completion attempt. *

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

A Non-Consenting Party shall have the right to audit the Non-Consent Account subject to audit provisions in Exhibit "C", Article I.5 of Operating Agreement.

* Price for said salvable materials and equipment shall be determined in accordance with Exhibit "C", Article IV.B.2.

ARTICLE VI
continued

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

~~The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after if has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.~~

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to ~~thirty (30)~~ sixty (60) days.

C. 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 Contract Area, 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 for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

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 Contract Area, 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.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries 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 any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, 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 samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the Information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within ~~thirty (30)~~ forty-five (45)/ days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning./ Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on / ~~the form attached as Exhibit~~ **

* Failure by any party to reply, in writing, within 45 days after receipt of notice of the proposed abandonment, shall constitute approval to plug and abandon.

** A form acceptable to the parties.

ARTICLE VI
continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☑ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of **Thirty-Five Thousand** Dollars ($ **35,000.00**) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator ~~so requesting~~ an information copy thereof for any single project costing in excess of **Twenty-Five Thousand** Dollars ($ **25,000.00**) but less than the amount first set forth above in this paragraph.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the Operator. ~~party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties.~~ Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.~~2~~.3.

~~Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.~~

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Maintenance of Uniform Interests:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

F. Preferential Right to Purchase:

Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of twenty (20) ~~ten (10)~~ days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall 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. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those 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 the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand and No/100 Dollars ($ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspending during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

SEE ARTICLE XV.D. FOR ADDITIONAL COMMENTS.

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal, or otherwise.

☑ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of _____ shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the / Department of Interior or Department of Energy or predecessor or successor agencies/ or any state or local government authority to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production / or for any fine, levy, or other government sanction that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

SEE ATTACHED.

ARTICLE XV.

OTHER PROVISIONS

PRIORITY OF OPERATIONS

If any time there is more than one operation proposed in connection with any well subject to this agreement, then unless all Consenting Parties agree on sequence of such operations, such proposals shall be considered and disposed of in the following priority:

1. Proposals to do additional logging, coring, and testing, provided, however, such testing shall not exceed 24 hours. The cost of such additional testing shall be borne as a part of the cost of the operation just completed. Notwithstanding anything to the contrary herein, the prior right to do such additional logging as provided in this paragraph shall be limited to a one-time election.

2. Proposals to complete the well at either the objective depth or formation.

3. Proposals to plug back and attempt completion. If there are conflicting proposals to plug back the well, the proposal having the deepest objective depth or formation shall take precedence over other proposals to plug back.

4. Proposals to deepen the well. If there are conflicting proposals to deepen the well, the proposal having the shallowest objective depth or formation shall take precedence over the other proposals to deepen.

5. Proposals to sidetrack the well.

It is agreed, however, that if at the time said Consenting Parties are considering any of the above elections the hole is in such a condition that a reasonably prudent Operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective formation, such election shall not be given the priority hereinabove set forth.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____ , (year) _____.

_____, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles _____ _____, have been made to the form.

OPERATOR

APACHE CORPORATION

_____ **By:**_____
John Swain,
Attorney In Fact

NON-OPERATORS

CHEVRON U.S.A. INC.

_____ **By:**_____
Name:_____
Title: _____

EXHIBIT "A"

Attached to and made a part of the Operating Agreement dated May 1, 2006, between Apache Corporation, as Operator, and Chevron U.S.A. Inc., as Non-Operator.

CONTRACT ACREAGE

SE/4SE/4NW/4, SW/4SW/4NE/4, NE/4NE/4N/2SW/4 and NW/4NW/4N/2SE/4 of Section 16, Township 21 South, Range 37 East, N.M.P.M., Lea County, New Mexico

Limited in depth from the surface of the earth down to 6,875', but in no event below the base of the Drinkard Formation plus 100' for operational purposes only.

INTEREST OF PARTIES

Apache Corporation	77.80%
Chevron U.S.A. Inc.	22.20%

ADDRESSES OF THE PARTIES

Apache Corporation
6120 South Yale Avenue, Suite 1500
Tulsa, OK 74136
Attn: Land Department

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

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated May 1, 2006, by and between Apache Corporation, as Operator, and Chevron U.S.A. Inc., as Non-Operator.

There is no Exhibit "B"

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated May 1, 2006, by and between Apache Corporation, as Operator, and Chevron U.S.A., as Non-Operator.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citibank, New York, New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

C. SEE ATTACHED PAGE 2(A)

6. Approval By Non-Operators

Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

Lease rentals and royalties paid by Operator for the Joint Operations.

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. Employee Benefits

Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

C. The audit rights and limitations granted in the foregoing paragraph shall also extend to parties who have elected not to participate in an operation pursuant to Article VI of the Operating Agreement to which this Accounting Procedure is attached as Exhibit "C", regardless of whether or not the Consenting Parties have recouped their costs. Additionally, a Non-Consenting Party may audit the revenue records of the Consenting Party which is carrying such Non-Consenting Party's interest insofar as such audit is limited to comparing production and purchaser/transportation statements to the payout statements. Initially, the party being audited shall be required to make available records for the current year plus the two (2) preceding calendar years. However, if a recurring error is discovered or if Consenting Party has failed to provide payout statements, records relating to prior periods may also be audited and adjusted, subject to the applicable statute of limitations for the jurisdiction in which the property is located. Nothing herein shall be construed as granting any party the right to audit another party's gas purchase/transportation contracts nor shall it require any party to grant credit for any volume or price adjustments until adjustment has been made by the purchaser/transporter.

5. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

(X) shall be covered by the overhead rates, or
( ) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 5500
(Prorated for less than a full month)

Producing Well Rate $ 550

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

(1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

(2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

(3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

(4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____Percent (_____%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (_____%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

(2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of $ 25,000.00 :

A. 5 % of first $100,000 or total cost if less, plus

B. 3 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2 % of costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. 5 % of total costs through $100,000; plus

B. 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000

pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(l)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line Pipe movements (except size 24 inch OD) and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(l) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and/or moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. *Premium* Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies. strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished By Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint.Account.

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated May 1, 2006, by and between Apache Corporation, as Operator, and Chevron U.S.A. Inc., as Non-Operator.

INSURANCE REQUIREMENTS

1. Operator shall carry insurance as follows for the benefit and protection of the Parties to this Agreement:

   a. Worker's Compensation Insurance in accordance with laws of governmental bodies having jurisdiction including, if applicable, United States Longshore and Harbor Workers' Compensation Act with Outer Continental Shelf Extension and Employers' Liability Insurance. Employers' Liability Insurance shall provide coverage of $100,000 per accident.

   B. Operator may include the aforesaid risks under its qualified self-insurance program provided Operator complies with applicable laws, and in such event Operator shall charge to the Joint Account, a premium determined by applying manual insurance rates to the payroll.

2. Operator shall not be obligated or authorized to obtain or carry on behalf of the Joint Account any additional insurance covering the Parties or the operations to be conducted hereunder without the consent and agreement of all Parties. Each Party individually may acquire at its own expense such insurance as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations provided that such insurance shall include a waiver of subrogation against the other Parties in respect of their interests hereunder. All uninsured losses and all damages to jointly owned property shall be borne by the Parties in proportion to their respective interests.

3. Operator shall promptly notify non-operators in writing of all losses involving damage to a jointly owned property in excess of $100,000.

4. Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Workmen's Compensation laws and to maintain such other insurance and in such amounts as Operator deems necessary.

5. In the event less than all Parties participate in an operation conducted under the terms of this Agreement, then the insurance requirement and costs, as well as all losses, liabilities, and expenses incurred as the result of such operations, shall be the burden of the Party or Parties participating therein.

EXHIBIT "E"

Attached to and made a part of Operating Agreement dated May 1, 2006, by and between Apache Corporation, as Operator, and Chevron U.S.A. Inc., as Non-Operator.

GAS BALANCING AGREEMENT

1.

In accordance with the terms of the Operating Agreement to which this Agreement is attached, each party shall take its share of oil and gas in kind and separately dispose of its proportionate share of the oil and gas produced from the above stipulated Contract Area. In the event any party hereto fails, or is unable to take its share of the gas as produced for any reason, the terms of this Agreement shall automatically become effective, but in no event will the terms and conditions of this agreement apply to any gas produced prior to January 1, 1986.

2.

It is the intent of this Agreement that each party should receive its proportionate share of gas produced from each well, in accordance with its working interest in the well, and that balancing of gas taken in kind under Paragraph 7 or monetary settlement as provided in Paragraph 8 will occur for each well. For purposes of this agreement, each completion in a wellbore shall constitute a separate well.

3.

Each party shall make a good faith effort to take its share of gas as currently produced. During any period or periods when a party fails, or is unable to take its full share of gas produced, the other parties shall be entitled, but not obligated, to take all of such gas production not taken by the underproduced party or parties. Each party failing to take its full share of the gas as produced shall be considered underproduced by a quantity of gas equal to its share of the gas produced from the well, less such party's share of the gas taken for its account, vented, lost, or used in lease operations. Those parties which are capable of taking quantities of gas allocable to an underproduced party, in the absence of any other agreement between them, shall be entitled to take the share of the gas attributed to the underproduced party or parties in the direct proportion that its interest bears to the total interest of all parties taking underproduced gas and shall be considered to be overproduced by the amount of such gas taken in excess of gas attributable to its working interest. All gas taken by a party in accordance with the terms of this Agreement, regardless of whether such party is underproduced or overproduced, shall be regarded as gas taken for its own account with title thereto being in such party, whether such gas be attributable to such party's working interest share of production, or whether it is being taken as overproduction, or whether it is being taken as make-up gas.

4.

All parties hereto shall share in and own the liquid hydrocarbons recovered from all gas by primary separation equipment prior to processing in a gas plant in accordance with their respective interests as specified in the above-described Operating Agreement, whether or not such parties are actually producing and marketing gas at such time.

5.

The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of gas each party is entitled to receive and the quantities of gas taken by each of the parties. For the sole purpose of implementing the terms of this Agreement and adjusting gas imbalances which may occur, each party disposing of gas from any well in the contract area in any month, to the extent required shall furnish or cause to be furnished to the Operator by the last day of each calendar month a statement showing the total volume of gas sold by such party or taken in kind for its own account during the preceding calendar month (the "report period"). Within sixty (60) days after the end at each month, the Operator shall furnish each party a statement showing the status

of the overproduced and underproduced accounts of all parties. All gas volumes under this paragraph will be identified by the appropriate well name and number and meter number. Each party to this Gas Balancing Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

6.

Any Non-Operator, upon written notice to the Operator, shall have the right to audit the accounts and records relating to the volumes of gas produced from the well for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, if a recurring error is discovered or if the Operator failed to provide monthly balancing statements as required in Paragraph 5, records relating to prior periods may also be audited and adjusted, subject to the applicable statute of limitations of the jurisdiction in which the property is located. Upon monetary settlement as provided for in Paragraph 8, an underproduced party has the right to audit any overproduced party's prices upon which settlement is based for a period of two (2) years after the respective gas balance account is settled. The parties shall make every reasonable effort to conduct joint audits in a manner which will result in a minimum of inconvenience to the party being audited. The audit shall not be conducted more than once each year without prior approval of the party being audited, except upon monetary settlement or the sale, transfer, or other disposition (excluding mergers and reorganizations) of such auditee's interest. Nothing herein shall be construed as granting any party the right to audit another party's gas purchase/transportation contract nor shall it require any party to grant credit for any volume or price adjustments until adjustments has been made by the purchaser/transporter.

7.

Any party underproduced as to a given well shall endeavor to bring its taking of gas of that well into balance. After at least 30 days prior written notice to all parties, any party may begin taking to its purchaser(s) its full share of gas produced from the well, beginning the first calendar day of the month following the 30 days prior written notice. To allow for the recovery and makeup of underproduced gas in a well and to balance the gas account for the well between the parties in accordance with their respective interests the underproduced party or parties for a well shall, after at least 30 days prior written notice to all parties, also be entitled to take up to an additional fifty percent (50%) of the monthly quantity of gas attributable to the overproduced party's' interest beginning the first calendar day of the month following the 30 days prior written notice. In the event there is more than one underproduced or overproduced party, unless otherwise agreed, each underproduced and overproduced party's share of make-up gas shall be in the direct proportion of its working interest to the total working interest of all underproduced or overproduced parties taking or furnishing make-up gas. In no event shall an overproduced party be required to provide more than fifty percent (50%) of its currently entitled gas volumes as make-up nor shall an overproduced party be required to provide more than twenty-five (25%) of its currently entitled gas volumes as any make-up during the production months of December, January, and February.

8.

If at the termination of gas production from a given well, an imbalance exists between the parties as to lease gas production from such well, a monetary settlement of the imbalance shall be made within ninety (90) days after such lease gas production from such well permanently ceases. In determining the value of the overproduction, beginning with the most recent month in which the overproduced parties took a volume of gas in excess of the quantity to which such parties were entitled, hereafter called "overage", the volume of overage accruing during such month shall be multiplied times the actual prices received including BTU content for such overage during such month. The same calculation shall be made for the next preceding, month in which the overage occurred and for each preceding month (progressing backward in time) in which an overage occurred until the total volume of the overages for these months equals the total volume of the overproduction. The amount of the monetary settlement will be limited to the proceeds (adjusted for BTU content) actually received by the overproduced party or parties at the rime of overproduction, less royalties, taxes, gathering, transportation or other marketing costs paid on such overproduction. If the overproduced party or parties did not sell their gas but otherwise utilized such gas in their own operations, such gas will be valued at the weighted average price received for gas sold from the Contract Area. That portion of the monies collected by the overproduced party or parties which is

subject to refund by orders of the FERC, may be withheld by the overproduced party or parties until such prices are fully approved by the FERC, unless the underproduced party or parties furnish a corporate undertaking agreeing to hold the overproduced party or parties harmless from financial loss due to orders by the FERC.

9.

Upon any sale, assignment or other disposition, hereinafter called "transfer", by an overproduced party (other than through mergers or reorganizations) of all or any part of its interest in a well, such party shall give notice thereof to the Operator and to all underproduced parties at least ninety (90) days prior to the anticipated closing date of the transfer. Each underproduced party so notified shall have until thirty (30) days prior to the later of the anticipated closing date or the actual closing date of the transfer within which to notify the overproduced party of its election to receive a cash settlement for its share of overproduced party's overproduction on the same basis as though the well subject to the transfer of interest has permanently ceased production. In the event the overproduced party making the transfer should fail to notify an underproduced party as required above, then any underproduced party not notified shall have a lien upon the interest transferred in the amount of the cash settlement to which the underproduced party would otherwise have been entitled, which lien shall be subordinate only to any valid Operator's lien provided for in the Operating Agreement to which this Agreement is attached, and which lien shall not be in lieu or waiver or any other legal rights of such entitled to recover from such overproduced party, who shall have a cause of action against and be entitled to recover from such overproduced party and his transferee, or either of them, such cash settlement amount, plus costs, attorney's fees and interest at the highest legal rate from the date of the transfer, in addition to exercising rights under the lien herein granted.

10.

The operating expenses are to be borne as provided in the Operating Agreement, regardless of whether all parties are selling or using gas or whether the sales and uses of each are in proportion to their percentage ownership interest as set forth in the Operating Agreement.

11.

At all times while gas is produced from the wells, each party shall pay or cause to be paid all royalties, severance, or production taxes or other obligations burdening its interest in gas actually utilized or sold for its, account. Each party agrees to hold each other party harmless from any and all claims for royalty payments asserted by its royalty owners. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments, and similar interests. In the event any governmental 'authority properly prescribes that royalty payments be made on any other basis than that described above, each party to this Agreement shall make royalty payments accordingly commencing on the effective date authorized by such governmental authority, and the above-described method shall thus be superseded.

12.

Except where provision is made to the contrary in the Operating Agreement, each party shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually utilized or sold for its own account.

13.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full well stream (not to exceed maximum efficient rate of flow) for a reasonable period to meet the deliverability test required by its purchaser.

14.

This Agreement shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until the gas balance accounts between the parties are settled in full and shall accrue to the benefit and be binding upon the parties hereto, their successors, representatives, and assigns.

EXHIBIT "F"

Equal Opportunity
Certifications and Agreements

Attached to and made a part of Operating Agreement dated May 1, 2006, by and between Apache Corporation, as Operator, and Chevron U.S.A. Inc., as Non-Operator.

This contract shall be performed by Operator in compliance with all applicable laws, proclamations, orders, rules and regulations, including, without limitation, the following:

1. **Equal Employment Opportunity**

   A. **Equal Opportunity Clause (41 CFR 60-1.4). (Applicable to all contracts for more than $10,000, individually; or if Operator has such contracts or subcontracts with the Government in any 12-month period which have an aggregate total value (or can reasonably be expected to have an aggregate total value) exceeding $10,000, the $10,000 or under exemption does not apply, and the contracts are subject to the order and the regulations issued pursuant thereto regardless of whether any single contract exceeds $10,000.)**

   The equal opportunity clause required by Executive Order 11246 of September 24, 1965, and prescribed in section 60-1.4 of Title 41 of the Code of Federal Regulations is incorporated by reference (as permitted by section 60-1.4(d) of said Regulations) as if set out in full at this point.

   B. **Certification of Nonsegregated Facilities (41 CFR 60-1.8). (Applicable only to contracts which are not exempt from the provisions of the Equal Opportunity Clause set out above.)**

      Operator certifies that it does not, and will not, maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not, permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. Operator agrees that a breach of this certification is a violation of the Equal Opportunity Clause required by Executive Order 11246 of September 24, 1965.

      As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise.

      Operator further agrees that (except where it has obtained identical certification from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES

A Certificate of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually).

C. Affirmative Action Compliance Program (41 CFR 60-1.40). (Applicable only if Operator (a) has 50 or more employees and (b) has a contract for $50,000 or more.)

If required under Section 60-1.40 of Title 41 of the Code of Federal Regulations, Operator certifies that it has developed, or agrees to develop, a written affirmative action program for each of its establishments within 120 days from the effectiveness of this contract or the first of the contracts of sale. Operator shall maintain such program until such time as it is no longer required by law or regulation. Operator shall maintain a copy of separate programs for each establishment, including evaluations of utilization of minority group personnel and the job classifications tables, at each local office responsible for the personnel matters of such establishment.

D. Employer Information Report (41 CFR 60-1.7). (Applicable only if Operator (a) has 50 or more employees, (b) is not exempt pursuant to 41 CFR 60-1.5 from the requirement for filing Employer Information Report EEO-1, and (c) has a contract or subcontract amounting to $50,000 or more.)

If required under section 60-1.7 of Title 41 of the Code of Federal Regulations to file, Operator hereby certifies that it has filed, or agrees to file, the Employer Information Report, Standard Form 100 (EEO-1), or such form as may hereinafter be promulgated in its place, in accordance with the applicable instructions and will continue to file such report unless and until Operator is not required to so file by law or regulation.

2. <u>Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era</u>

A. Affirmative Action Clause (41 CFR 60-250.4). (Applicable only to contracts for $10,000 or more.)

The affirmative action clause prescribed in section 60-250.4 of Title 41 of the Code of Federal Regulations is incorporated by reference (as permitted by section 60-250.22 of said Regulations) as if set out in full at this point.

B. Affirmative Action Program (41 CFR 60-250-5). (Applicable to contracts for $10,000 or more only if Operator (a) has 50 or more employees and (b) holds a contract of $50,000 or more.)

The affirmative action program prescribed in sections 60-250.5 and 60-250.6 of Title 41 of the Code of Federal Regulations is incorporated by reference (as permitted by section 60-250.22 of said Regulations) as if set out in full at this point.

3. <u>Affirmative Action for Handicapped Workers</u>

A. Affirmative Action Clause (41 CFR 60-741.4). (Applicable only to contracts for $2,500 or more.)

The affirmative action clause prescribed in section 60-741.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by section 60-741.22 of said Regulations) as if set out in full at this point.

B. **Affirmative Action Program (41 CFR 60-741-5). (Applicable to contracts for $2,500 or more only if Operator (a) has 50 or more employees and (b) holds a contract of $50,000 or more.)**

The affirmative action program prescribed in sections 60-741.5 and 60-741.6 of Title 41 of the Code of Federal Regulations is incorporated by reference (as permitted by section 60-741.22 of said Regulations) as if set out in full at this point.

4. **Minority Business Enterprises (41 CFR 1-1.13, Federal Procurement Regulations)**

A. **Utilization of Minority Business Enterprises (41 CFR 1-1.1310-2(a)). (Applicable only to contracts which may exceed $10,000 except those, and all subcontracts thereunder, to be performed entirely outside the United States, its possessions, and Puerto Rico, and those for services of a personal nature.)**

(1) **It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.**

(2) **Operator agrees to use its best efforts to carry out this policy in the award of its subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American Aleuts. Operator may rely on written representation by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.**

B. **Minority Business Enterprise Subcontracting Program (41 CFR 1-1.1310-2(b)). (Applicable to all contracts which may exceed $500,000 which contain the clause required by 41 CFR 1-1.1310-2(a) and which offer substantial subcontracting possibilities.)**

(1) **Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the above clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall:**

(a) **Designate a liaison officer who will administer Operator's minority business enterprises program.**

(b) **Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.**

(c) **Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.**

(d) **Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business**

enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

(e) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

(f) Cooperate with the Contracting Officer in any studies and surveys of Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

(g) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (d), above, in such form and manner and at such time (not more than quarterly) as the Contracting Officer may prescribe.

(2) Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000, provisions which shall conform substantially to the language of this clause, including this paragraph (2), and to notify the Contracting Officer of the names of such subcontractors.

NM State Land Office
Oil, Gas, & Minerals Division

STATE/STATE OR
STATE/FEE
Revised March 2003

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:

EXHIBIT D

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 16: SE/4SE/4NW/4, NE/4NE/4N/2SW/4, NW/4NW/4N/2SE/4 and SW/4SW/4NE/4

Lea County , New Mexico

Limited to production from the **STATE DA #22**, located

2630' FSL & 2610' FWL of said Section 16.

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

LESSEE OF RECORD:

CHEVRON U.S.A. INC.

By: D.A. Beelik

Title: Attorney-in-Fact

Acknowledgment in a Representative Capacity

State of Oklahoma)
) SS
County of Tulsa)

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

Notary Public Oklahoma
OFFICIAL SEAL
SHEILA REXROAD
TULSA COUNTY
Comm. Exp. 08-24-2008

Sheila Rexroad
Notary Public, State of Oklahoma

My commission expires: _____

Acknowledgment in a Representative Capacity

State of Texas)
) SS
County of Harris)

This instrument was acknowledged before me on this 29th day of June, 2006, by D. A. Beelik, as Attorney-in-Fact on behalf of Chevron U.S.A. Inc., a Pennsylvania Corporation.

LUISA GANUNG
NOTARY PUBLIC, STATE OF TEXAS
MY COMMISSION EXPIRES
MAY 30, 2008

Luisa Ganung
Notary Public, State of Texas

My commission expires: 5-30-08

EXHIBIT A

To Communitization Agreement dated May 1, 2006, embracing the SE/4SE/4NW/4, NE/4NE/4N/2SW/4, NW/4NW/4N/2SE/4 and SW/4SW/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.:	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: SE/4SE/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. 2

Lease Serial No.:	State of New Mexico NM B-85-16
Lease Date:	July 28, 1928
Lessor:	State of New Mexico acting by and through its Commissioner of of Public Lands
Original Lessee of Record:	Los Angeles-New Mexico Oil Company
Present Lessee of Record:	Apache Corporation

Description of Land Committed:

Township 21 South, Range 37 East, Section 16: NE/4NE/4N/2SW/4, NW/4NW/4N/2SE/4

Number of Acres:	20.00
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: SW/4SW/4NE/4

Number of Acres: 10.00

Royalty Rate: 12.5%

Name and Percent ORRI Owners: None

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

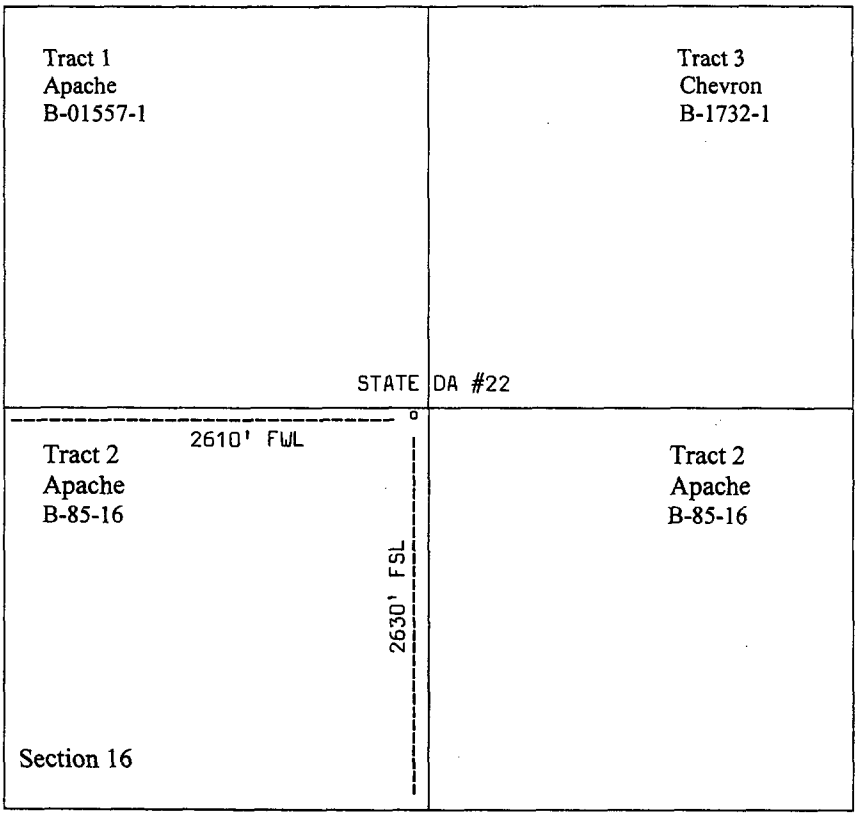
RECAPITULATION

Tract number	**Number of Acres Committed**	**Percentage of Interest In Communitized Area**
Lease No. 1	10.00	23.93%
Lease No. 2	20.00	53.87%
Lease No. 3	10.00	22.20%

EXHIBIT "B"

To Communitization Agreement dated May 1, 2006

Plat of communitized area covering the SE/4SE/4NW/4, NE/4NE/4N/2SW/4, NW/4NW/4N/2SE/4 and SW/4SW/4NE/4 of Section 16, Township 21 South, Range 37 East, N.M.P.M, Lea County, New Mexico:



Brooks, David K., EMNRD

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

Jim

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

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

2006 NOV 13 PM 1 16

November 13, 2006

Hand Delivered

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

Re: Apache Corporation

Dear David:

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

1. My reference to "Lease Line Agreements" does mean the Cooperative Agreements signed by the working interest owners and the BLM. I apologize for the confusion.

2. As to notice to royalty owners and overriding royalty owners, our reasoning was as follows:

(a) As to the State and Federal leases, I view the Communitization Agreements and Cooperative Agreements as "modifying" the lease terms to allow the wells to be drilled and production accounted for under those agreements.

(b) There are no overriding royalty owners in the Hawk B lease and in all of the State leases. As to the Hawk A lease, the instrument creating the overriding royalty provides (as was common at that time) that it will be calculated and paid "the same as royalties payable to the government." Thus, I believe the BLM's approvals would cover those interests.

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

August 2, 2006

RECEIVED
AUG 0 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)
State DA Well No. 22
SESENW, NENESW, SWSWNE, and NWNWSE
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 State DA Well No. 22 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 one year, and so long thereafter as communitized substances are produced from the communitized area in paying quantities.

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

NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

Apache Corporation
State DA Well No. 22
Lea County, New Mexico
SESENW, NENESW, SWSWNE, and NWNWSE, 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, I, 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.**

Patricia H. Lyon /CB

COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico