PAUL BACA PROFESSIONAL COURT REPORTERS

OIL CONSERVATION

EXHIBIT 1

CASE NO. 14183

500 FOURTH STREET, NW SUITE 105, ALBUQUEQRUE, NM 87102

STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF APACHE CORPORATION FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

Case No. 14,183

VERIFIED STATEMENT OF MICHELLE HANSON

Michelle Hanson, being duly sworn upon her oath, deposes and states:

1. I am a landman for Apache Corporation, and have personal knowledge of the matters stated herein.

2. Pursuant to Division Rule 1210.A(1)(b), the following information is submitted in support of the application filed herein:

(a) No opposition to this application is expected because the mineral interest owners being pooled are (i) unlocatable, or (ii) have not responded to lease offers or well proposals.

(b) A plat outlining the spacing unit being pooled, and marking the location of the proposed well, is attached hereto as Exhibit A. Applicant seeks an order pooling all mineral interests from the surface to the base of the Drinkard formation underlying the NW¹/4NW¹/4 of Section 11, Township 20 South, Range 38 East, NMPM, to form a standard 40-acre oil spacing and proration unit for any and all formations or pools developed on 40-acre spacing within that vertical extent, including the House-Blinebry Pool and House-Tubb Pool. The unit will be dedicated to the Magnolia Well No. 2, to be drilled at an orthodox oil well location in the NW¹/4NW¹/4 of Section 11.

(c) The parties being pooled, their interests in the $NW^{1/4}NW^{1/4}$ of Section 11, and their last known addresses, are listed on Exhibit B.

(d) A copy of the proposal letter sent to the uncommitted mineral interest owners is attached hereto as Exhibit C.

(e) Interest owners who are not locatable are highlighted in yellow on Exhibit B. To attempt to locate these interest owners, Apache Corporation examined the Lea County records, telephone directories, records in the counties of the last known residences of the

Oil Conservation Division Case No. Exhibit No.

out-of-state owners, and internet directories. Correspondence to the last known addresses of these interest owners was returned to sender.

(f) Apache Corporation has made a good faith effort to obtain the voluntary joinder of interest owners in the well, or to locate the interest owners.

(g) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against non-consenting interest owners.

(h) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit D. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of Lea County.

(i) Overhead charges of (0.000)/month for a drilling well, and (0.000)/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth. Apache Corporation requests that the rates be adjusted under the COPAS accounting procedure.

(j) Applicant requests that it be designated operator of the well.

VERIFICATION

STATE OF OKLAOHOMA)
) ss.
COUNTY OF TULSA)

Michelle Hanson, being duly sworn upon her oath, deposes and states that: She is a landman for Apache Corporation; she is authorized to make this verification on its behalf; she has read the foregoing statement, and knows the contents thereof; and the same is true and correct to the best of her knowledge, information, and belief.

SUBSCRIBED AND SWORN TO before me this 10 day of September, 2008 by Michelle Hanson.

4-16-2011

Notary Public

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6120 S. YALE / SUITE 1500 / TULSA, OKLAHOMA 74136

PRATION

Central Region Land Department (918) 491-4900 (918) 491-4854 (FAX)

August 13, 2008

MINERAL INTEREST OWNERS

RE: Proposal to Drill Magnolia #2 Well and Request to AMEND existing JOA 330' FNL & 880' FWL Township 20 South, Range 38 East Section 11: NW/4 NW/4 Lea County, New Mexico

Dear Interest Owner,

Apache Corporation ("Apache") hereby proposes the drilling of the Magnolia #2 Well to a total depth of 7,300' to test the Blinebry, Tubb and Drinkard formations. This well is to be located 330' FNL & 880' FWL in the NW/4 Section 11, T20S, R38E, Lea County, New Mexico. The estimated dry hole cost for this well is \$502,000 and the total completed well cost is approximately \$1,547,600. Enclosed for your review and further handling are two (2) copies of Apache's drilling and completion AFE. Said AFE contains an itemized breakdown of the estimated cost for the drilling and completion work for the Magnolia #2 well.

Apache also hereby proposes to amend the Contract Area to that certain Joint Operating Agreement dated March 1, 2008 to include the NW/4 NW/4 Section 11, T20S, R38E, Lea County, New Mexico for the recently proposed Magnolia #2 Well. This Joint Operating Agreement originally covered the SW/4 NW/4 Section 11, T20S, R38E, for the Magnolia #1 Well. As a result, the Contract Area will now cover the W/2 NW/4-Section 11, T20S, R38E, Lea County, New Mexico.

Except as herein provided, the Joint Operating Agreement dated March 1, 2008 shall remain in full force and effect in accordance with its terms and provisions, and the amendment proposed herein shall be effective as of March 1, 2008 and shall be binding as to each party, its successors or assigns, executing the same.

Should you elect not to participate in the drilling of the Magnolia #2 Well, please consider leasing your mineral interest to Apache by contacting either Doug Ferguson or Sharon Cornal at 432-684-4542 or P.O. Box 432, Midland, TX 79702. Should you consider leasing, Apache is offering a bonus of \$150 per net acre or \$50 minimum, whichever is greater, for a 3 year lease, with option to extend 2 years at \$100 per net acre, delivering 1/5 oil and gas royalty.

Please evidence your election of Apache's well proposal and request to amend the existing JOA on Page 2 of this letter and should you elect to participate in the well please execute one (1) copy of the enclosed AFE and return same, along with your election on Page 2, to the undersigned at your earliest convenience in the enclosed postage paid envelope provided for your convenience. Your immediate attention to this proposal will be greatly appreciated and should you have any questions concerning this matter, please do not hesitate contacting Kevin Mayes our Reservoir Engineer at (918) 491-4972 or the undersigned at (918) 491-4838.

Yours truly,

APACHE CORPORATION

Alaum

Michelle Hanson Landman (918) 491-4854 fax <u>Michelle.hanson@apachecorp.com</u>

EXHIBIT

Page 2 – Proposal to Drill Magnolia #2 and Request to AMEND existing JOA August 13, 2008

PROPOSAL TO DRILL:

- The undersigned elects to **PARTICIPATE** in the drilling of the Magnolia No. 2 well as proposed above. Attached is an executed copy of Apache's AFE #TW-08-0490.
- _____ The undersigned elects to go NON-CONSENT in the drilling and completing of the Magnolia #2 well as proposed above.
- _____ The undersigned agrees to LEASE its mineral interest to Apache pursuant to the terms previously stated on Page 1 of this letter.

REQUEST TO AMEND EXISTING JOA:

- _____ The undersigned elects to AMEND the existing JOA to include the NW/4 NW/4 Section 11 (Magnolia #2) as proposed above.
- The undersigned elects NOT TO AMEND the existing JOA to include the NW/4 NW/4 Section 11 (Magnolia #2) as proposed above.

Ву:	····.	
Name:		
Title:		
Date:		



DRILLING AND COMPLETION AFE ESTIMATE OF COSTS AND AUTHORIZATION FOR EXPENDITURE

PROPERTY NO.	0] EMS 💽 л	S	AFE NO.	TW-08-0490
COUNTY/STATE	LEA, NM	DISTRICT	PERN	IIAN WEST	DATÉ	08/13/08
LEASE NAME	MAGNOLIA	WELL NO.	2		FIELD	HOUSE
PROSPECT/LEASE #	HOUSE		LEGAL / ZIP CODE	SEC 11,	T20S-R38E	
OPERATOR	APACHE CORPORATION	J	APACHE WI	85.0	00000%	- SUPPLEMENT
OBJECTIVE	DRINKARD - 7,300'		PROSPECT # NM4022		M4022	- EXPLORATION X DEVELOPMENT
FOCUS AREA	NEW MEXICO		API#		0	- PUD
ESTIMATED PROJECT	START DATE		ESTIMATED P	ROJECT COMP	PLETION DATE	
DESCRIPTION	Drill, Complete, and Equip a 7,3	50' B-T-D	well.			
		<u> </u>		<u> </u>		
· · · · · · · · · · · · · · · · · · ·						<u> </u>
					(C	losed Loop System) REVISEI

INTANGIBLE DEVELOPMENT COSTS

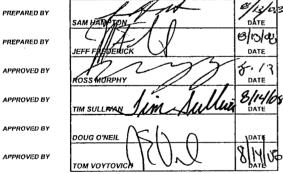
ACCT	DESCRIPTION	DRY HOLE	COMPLETION	SUPPLEMENT	TOTAL WELL COST
70002	AIR TRANSPORTATION	0	0	0	0
70003	BITS, COREHEADS AND REAMERS	22,000	1,000	0	23,000
70004	CASING CREWS	4,000	4,000	0	8,000
70005	CATERING AND GROCERIES	0	0	0	0
70006	CEMENT AND CEMENTING SERVICES	20,000	42,000	0	62,000
70009	COMPANY LABOR	0	0	0	0
70011	COMPANY SUPERVISION	1,000	7,000	0	8,000
70012	COMPANY VEHICLE EXPENSE	500	0	0	500
70019	CONTRACT DRILLING - DAYWORK @ \$13,800 /day	138,000	35,000	0	173,000
70020	CONTRACT DRILLING - FOOTAGE	0	0	0	0
70017	CONTRACT LABOR	9,000	10,000	0	19,000
70021	CONTRACT SUPERVISION	13,500	0	0	13,500
70022	DIRECTIONAL TOOLS	0	0	0	0
70025	DRILLING FLUIDS	10,000	0	0	10,000
65506	DRILLING OVERHEAD	7,750	0	0	7,750
70059	DRY HOLE PLUGGING	0	0	0	0
70031	EQUIPMENT RENTAL	25,000	23,000	0	48,000
70033	FILTRATION	0	0	0	0
70034	FORMATION STIMULATION	0	300,000	0	300,000
70035	FORMATION TESTING	0	0	0	0
70037	FUEL AND POWER	25,000	0	0	25,000
70039	GEOLOGICAL AND ENGINEERING	14,000	0	0	14,000
70040	GRAVEL PACK SERVICES	0	0	0	0
70045	INSURANCE	0	0	0	0
70046	LAND AND SITE RECLAMATION	40,000	0	0	40,000
70047	LEGAL AND CURATIVE	3,000	0	0	3,000
70049	LOGGING	20,000	15,000	0	35,000
70050	MARINE TRANSPORTATION	0	0	0	0
70054	OTHER INTANGIBLE	24,000	95,100	0	119,100
70064	RIG MOBILIZATION	20,000	0	0	20,000
70065	ROADS AND SITE PREPARATION	32,000	0	0	32,000
70069	SNUBBING/COIL TUBING UNIT	0	0	0	0
70073	TAX ON EQUIPMENT	0	0	0	0
70074	TRUCKING AND HAULING	7,500	7,500	0	15,000
70075	TUBING CONVEY PERFORATING	0	0	0	0
70076	TUBULAR INSPECTIONS	3,000	2,500	0	5,500
70077	WATER	15,000	5,000	0	20,000
70078	WELLSITE LOSS AND DAMAGES	7,500	0	0	7,500
	SUB-TOTAL INTANG. DEVELOPMENT COSTS	461,750	547,100	0	1,008,850

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MAGNOLIA

TANGIBLE MATERIAL COSTS

ACCT	RIPTION	DRY HOLE	COMPLETION	SUPPLEMENT	TOTAL WELL COST
71001	ARTIFICIAL LIFT EQUIPMENT	0	88,000	0	88.000
71005	COMPRESSOR STATIONS	0	0	0	0
71006	CONDUCTOR CSG	7,000	0	0	7.000
71008	DEHYDRATION / AMINE UNITS	0	0	0	0
71012	FLOW LINES TO BATTERY	0	5.000	0	5.000
71017	HIGH PRESSURE KNOCK-OUT	0	0	0	0
71019	INTERMEDIATE CSG	0	0	0	0
71024	LINER HANGERS	· 0	0	0	0
71025	LINERS - DRILLING OR PRODUCTION	0	0	0	0
71007	ONSHORE PLATFORM	0	0	0	0
71032	OTHER SUBSURFACE EQUIPMENT	0	3,500	0	3,500
71033	OTHER SURFACE EQUIPMENT	0	12,500	0	12,500
71039	PRIME MOVER	0	3,000	0	3,000
71040	PRODUCTION CASING - 5-1/2" 17# J55 & 1000' L80LTC	0	98,750	0	98,750
71043	PUMPS	. 0	4,000	0	4,000
71045	SALES LINE	0	0	0	0
71046	SEPARATORS	0	20,000	0	20,000
71048	SUCKER RODS	0	24,000	0	24,000
71050	SURFACE CSG 1,600' - 8-5/8" 24# J55 STC @ \$17.39 + Tax	31,000	0	0	31,000
71051	TANK BATTERY	0	160,000	0	160,000
71052	TREATERS	0	20,000	0	20,000
71053	TUBING 2-7/8" 6.5# J-55	0	54,750	0	54,750
71056	WELLHEAD ASSEMBLY	2,250	5,000	0	7.250
	SUB-TOTAL TANGIBLE MATERIAL COSTS	40,250	498,500	0	538,750
	SUB-TOTAL INTANGIBLE COSTS (PAGE 1)	461,750	547,100	0	1,008,850
	GRAND TOTAL	502,000	1,045,600	0	1,547,600
	LESS OUTSIDE INTERESTS	75,300	156,840	0	232,140
	TOTAL NET COSTS	426,700	888,760	0	1,315,460



A .	GROSS ORIGINAL AFE AMOUNT	1,547,600
в.	APACHE ORIGINAL NET AFE AMOUNT	1,315,460
C.	NET ASSET TRANSFERS	
D.	TOTAL ORIGINAL NET AFE (LINE B PLUS LINE C)	1,315,460
Е.	GROSS SUPPLEMENTS	0
F.	APACHE TOTAL NET AFE AMOUNT	1,315,460
-	IN BUDGET	NOT IN BUDGET

Notice to Nonoperators: Costs shown on this form estimates only. Nonoperators should not consider these estimates as establishing any limit on monles which will be required to perform the proposed operation.

COMPANY	WORKING INTEREST	APPROVED BY	DATE
		<u>, </u>	
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DATE

COMMENTS:

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