

COMMUNITIZATION AGREEMENT

ONLINE Version

API #: 30-0 _____ - _____

THIS COMMUNITIZATION AGREEMENT (“Agreement”) [which is NOT to be used for carbon dioxide or helium] is entered into and made effective this ____ [day] of _____ [month] _____, 20_, by and between the parties signing below (“Parties”):

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (“Commissioner”) is authorized by the Legislature, as set forth in Section 19-10-53, NMSA 1978, in the interest of development of oil and gas and the prevention of waste to consent to and approve the development or operation of State Trust Lands under agreements made by lessees of oil and gas leases thereon, jointly or severally with other oil & gas lessees of State Trust 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 (“OCD”) where such agreement provides for the allocation of the production of oil or gas from such pools or communitized areas on an acreage or other basis found by the Commissioner to be fair and equitable.

WHEREAS, the Parties own working, royalty, or other leasehold or other interests or operating rights under the oil and gas leases and lands subject to this Agreement, and all such State leases are required to remain in good standing and compliant with State laws, rules and regulations, which leases, along with the well(s) on each lease to be encompassed by this Agreement, 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 _____ formation or pool as defined by the NMOCD, as further described on Exhibit “A” (hereinafter referred to as “said formation”) 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, it is mutually covenanted and agreed by and between the undersigned as follows:

1. The lands described in Exhibit A (or B) covered by this Agreement (hereinafter referred to as the "communitized area") are described as follows:

Subdivisions: _____

Of Sect(s): _____ Twp: _____ Rng: _____ NMPM _____ County, NM

Containing _____ acres, more or less. It is the judgment of the Parties 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 OCD, 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 do hereby communitize for proration or spacing purposes only the leases and depths 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, depths communitized, 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 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 5, 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 or performance of other lease obligations 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. _____ shall be the operator of the said communitized area (“Operator”) and all matters of operation shall be determined and performed by _____. If more than one Operator operates wells subject to this Agreement, the Commissioner reserves the right to require one or more or all operators who added infill wells to this Agreement to obtain a new agreement.

5. The Commissioner hereafter is entitled to the right to take in kind the Commissioner’s share for the communitized substances allocated to such tract, and the Operator shall make deliveries of such royaltyshare taken in kind in conformity with applicable contracts, laws, and regulations.

6. There shall be no obligation upon the Parties 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 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.

7. The commencement, completion, and continued operation or production of a well or wells of 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.

8. 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.

9. This Agreement shall be effective as of the date hereinabove written upon execution by the Parties, notwithstanding the date of execution, and upon approval by the Commissioner, 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, and so long as all State leases remain in good standing with all applicable State laws, rules, and regulations; provided, that this Agreement shall not expire if there is a well 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 located within the physical boundaries of that specific lease assignment. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner 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.

10. Notwithstanding any other provision herein, if there is a cessation of production of communitized substances for more than sixty (60) days beginning one year after the date of execution, this Agreement shall automatically terminate, along with the ability to produce communitized substances, unless notice of reworking or drilling operations on the communitized area is made within 60 days of cessation of production of communitized substances and are thereafter conducted with reasonable diligence or the Commissioner of Public Lands otherwise grants an exception to continued drilling operations, including for the compliance of other state rules, laws, or policies. All such notices provided pursuant to this Paragraph shall be in writing and must be approved by the Commissioner. As to State Trust Lands, written notice of intention to commence any operations hereunder 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. All requests to the Commissioner to grant an exception or exceptions for the compliance of other state rules, laws, or policies must be made in writing 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 this Agreement or any lease from the State of New Mexico included in this Agreement

11. Operator shall furnish the Commissioner and the OCD, 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.

12. It is agreed between the Parties that the Commissioner, or the Commissioner's 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 Land Office and the OCD.

13. If any order of the OCD 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.

14. 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.

15. 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.

16. In the event that Operator is aggrieved by a decision of the Commissioner with respect to any action by the Commissioner arising under this Agreement, Operator may within thirty (30) days after the date of such action file an administrative contest pursuant to 19.7.64 NMSA (1978) and 19.2.15 NMAC. Operator shall initiate no court action against the Commissioner or New Mexico State Land Office regarding this Agreement except to appeal a final decision of the Commissioner rendered pursuant to such a contest proceeding, and as provided by 19.7.64 NMSA (1978). **The Parties agree that any venue for any appeal or other action shall be in Santa Fe, New Mexico.**

17. Operator shall notify the Commissioner in writing within ten (10) days of (i) Operator's receipt of any compliance order, enforcement order, notice of violation, warning letter, or other written notice of final or contemplated enforcement action taken by any federal, state, or local governmental entity arising out of or concerning any of Operator's operations on New Mexico state trust land; (ii) Operator's receipt of any order, judgment, or decree (on consent or otherwise) entered by any federal or state court against Operator arising out of or concerning any of Operator's operations on New Mexico state trust land; or (iii) Operator's receipt of any written notice of claim, written pre-suit notice, or lawsuit arising out of or concerning any of Operator's operations on New Mexico state trust land. Upon the Commissioner's request, Operator shall promptly provide the Commissioner with a copy of any such order, judgment, decree, notice, letter, or lawsuit.

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

Commissioner of Public Lands: _____ Date: _____

Lease # and Lessee of Record: _____

BY: _____(Name and Title of Authorized Agent)

_____(Signature of Authorized Agent)

Acknowledgment in an Individual Capacity

State of)
SS)
County of)

This instrument was acknowledged before me on _____ Date

By

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____

Acknowledgment in an Representative Capacity

State of)
SS)
County of)

This instrument was acknowledged before me on _____ Date:_____

By: _____

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: _____