

COMMUNITIZATION AGREEMENT

Contract No. _____

THIS AGREEMENT, entered into as of the date shown in Section 10 hereof by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto,"

WITNESSETH:

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended and supplemented, authorizes communitization or drilling agreements communitizing or pooling a federal oil and gas lease, or any portions thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area, and such communitization or pooling is determined to be in the public interest; and,

WHEREAS, the Commissioner of Public Lands of the State of New Mexico, herein called "the Commissioner", is authorized to consent to and approve agreements pooling state oil and gas leases or any portion thereof, when separate tracts under such state leases cannot be independently developed and operated economically in conformity with well-spacing and gas proration rules and regulations established for the field or area and such pooling is determined to be in the public interest; and,

WHEREAS, the parties hereto own working, royalty, or other leasehold interests, or operating rights under the oil and gas leases and land subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and,

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of the agreement;

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 parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Township 26 South, Range 33 East, N.M.P.M.

Section 29: W/2

Section 32: N/2NW/4, Lot 4, Lot 3

Lea County, New Mexico 50 6 44 22 700 5102

containing 474.71 acres, more or less, and this agreement shall include only the **Bone Spring Formation** underlying said lands and the oil, natural gas, and associated hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit "B" designating the operator of the communitized area and showing the acreage, percentage, and ownership of oil and

gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and three (3) executed copies of a designation of successor operator shall be filed with the Authorized Officer and three (3) additional executed copies thereof shall be filed with the Commissioner.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, and the Commissioner, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of oil and gas sales and royalties, and such other reports as are deemed necessary to compute monthly the royalty due the United States and the State of New Mexico, as specified in the applicable oil and gas operating regulations.

5. 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 leaseholds comprising said area in the proportion that the acreage interest of leasehold bears to the entire acreage interest committed to this agreement.

All proceeds, 8/8ths, attributed to unleased Federal, State or fee land included within the CA area are to be placed in an interest earning escrow or trust account by the designated operator until the land is leased or ownership is established.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued. It is agreed that for any federal lease bearing a sliding-or step-scale rate of royalty, such rate shall be determined separately as to production from each communitization agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day such rate shall be determined by the sum of all communitized production allocated to such a lease plus any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules, and regulations, 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 such compliance is prevented by, or is such failure results from, compliance with any such laws, orders, rules or regulations.

10. The date of this agreement is January 1, 2016 and it shall become effective as of this date or from the onset of production of communitized substances, whichever is earlier upon execution of the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of Interior, or his duly authorized representative, and by the Commissioner or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are produced or can be produced from the communitized area in paying quantities; provided, that the two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period; provided further that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of Interior, or his duly authorized representative, and all requirements of the Commissioner, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of the capability of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted and prosecuted 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 capability of 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.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal lands shall be subject to approval by the Secretary of the Interior, and as to State of New Mexico lands shall be subject to approval by the Commissioner.

12. It is agreed by the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor, and in the applicable oil and gas operating regulations of the Department of the Interior. It is further agreed between the parties hereto that the Commissioner shall have the right of supervision over all operations to the same extent and degree as provided in the oil and gas leases under which the State of New Mexico is lessor and in the applicable oil and gas statutes and regulations of the State of New Mexico.

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13. The agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

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 instrument, 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. Nondiscrimination: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F. R. 12319), as amended which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first written and have set opposite their respective names the date of execution.

CHEVRON U.S.A. INC.

Lessee of Record

Operator

P. A. Bilu

P. A. Bikun

Print name of person

Attorney-in-Fact

Type of authority

[Acknowledgments are on following page.]

2015 JUL 22 700 510Z

Acknowledgment in a Representative Capacity

State of Texas)

County of Harris)

This instrument was acknowledged before me on July 14, 2015 by T.A. BIKUN as
Attorney-in-Fact of Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.



Marilyn J. Edwards
Signature of Notarial Officer

My commission expires: 3-10-17

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EXHIBIT A

Attached to and to and made a part of that certain Communitization Agreement dated January 1, 2016 covering the W/2 of Section 29 and the N/2NW/4, Lot 4, Lot 3 of Section 32- T26S-R33E, N.M.P.M., Lea County, New Mexico, limited to the Bone Spring Formation

Plat of communitized area covering the:

Township 26 South, Range 33 East, N.M.P.M.

Section 29: W/2

Section 32: N/2NW/4, Lot 4, Lot 3

Lea County, New Mexico

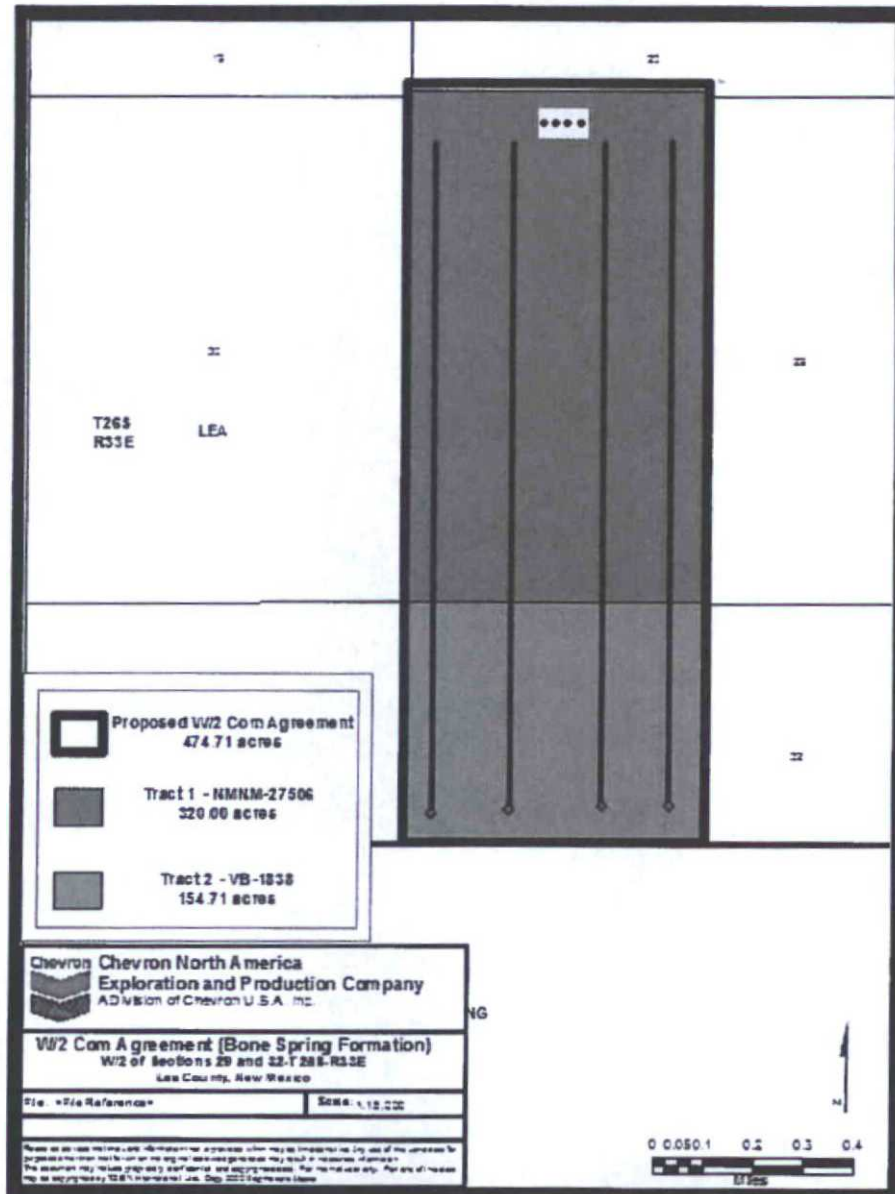


EXHIBIT B

Attached to and to and made a part of that certain Communitization Agreement dated January 1, 2016 covering the W/2 of Section 29 and the N/2NW/4, Lot 4, Lot 3 of Section 32- T26S-R33E, N.M.P.M., Lea County, New Mexico, limited to the Bone Spring Formation

Operator of Communitized Area: Chevron U.S.A. Inc.

	<u>DESCRIPTION OF LEASES COMMITTED</u>
<u>TRACT NO. 1</u>	
Lease Serial No.:	NMNM-27506
Lease Date:	September 1, 1948
Lease Term:	5 years (Held by Production)
Lessor:	United States of America
Original Lessee:	Porter Brown
Present Lessee:	Chevron U.S.A. Inc.
Description of Land Committed:	<u>Township 26 South, Range 33 East, N.M.P.M.</u> Section 29: W/2 Lea County, New Mexico

Number of Acres:	320.00 acres	
Royalty Rate:	12.5%	
Name and Percent ORRI Owners:	Ruth H. Brown	1.50%
	Hazelwood Partners, LP	0.75%
	Edna Brown Hibbitts	0.75%
	Sandi Miller	0.375%
	Miller Family Mineral Interest, LLC	0.375%
Name and Percent WI Owners:	Chevron U.S.A. Inc.	100.00%

<u>TRACT NO. 2</u>	
Lease Serial No.:	VB-1838
Lease Date:	April 1, 2010
Lease Term:	5 years (Held by Production)
Lessor:	State of New Mexico
Original Lessee:	Daniel E. Gonzales
Present Lessee:	Chevron U.S.A. Inc.
Description of Land Committed:	<u>Township 26 South, Range 33 East, N.M.P.M.</u> Section 32: N/2NW/4, Lot 4, Lot 3 Lea County, New Mexico

Number of Acres:	154.71 acres	
Royalty Rate:	3/16ths	
Name and Percent ORRI Owners:	None	
Name and Percent WI Owners:	Chevron U.S.A Inc.	100.00%

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RECAPITULATION

Attached to and to and made a part of that certain Communitization Agreement dated January 1, 2016 covering the W/2 of Section 29 and the N/2NW/4, Lot 4, Lot 3 of Section 32- T26S-R33E, N.M.P.M., Lea County, New Mexico, limited to the Bone Spring Formation

<u>Tract Number</u>	<u>Number of Acres Committed</u>	<u>Percentage of Interest in Communitized Area</u>
Tract No.1	320.00 acres	67.409576%
<u>Tract No.2</u>	<u>154.71 acres</u>	<u>32.590424%</u>
TOTAL	474.71 acres	100.00%

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