



# United States Department of the Interior

## BUREAU OF LAND MANAGEMENT

Farmington Field Office  
6251 College Blvd. - Suite A  
Farmington, New Mexico 87402  
www.blm.gov/nm



In Reply Refer To:  
3105 (NMF0110)

30-039-29273

NMNM-138536 (CA)

JUL 10 2018

Hilcorp Energy Company  
Attn: Sheryl Kohl  
1111 Travis Street  
Houston, TX 77002

Dear Ms. Kohl:

Enclosed is one approved Communitization Agreement (CA) NMNM-138536, involving 131.50 acres of minerals in Fee lease and 188.50 acres of Federal minerals in lease NMSF-078277 located in Rio Arriba County, New Mexico. This acreage comprises 320.00 acres, more or less in the Pictured Cliffs spacing unit for the San Juan 29-5 Unit #62F well.

The agreement communitizes all rights as to natural gas and associated liquid hydrocarbons gas producible from the Pictured Cliffs formation in the W/2 of Section 7, T.29 N., R.5 and is effective May 2, 2018. You are requested to furnish all interested principals with appropriate evidence of this approval.

CA number NMNM-138536 as assigned above, must be posted on the well and facility signs for the San Juan 29-5 Unit #62F well. The sign shall include the well name and number, Operator name, lease serial number, Communitization number, the quarter-quarter section, section, township and range, county, and state. (43 CFR 3162.6).


Pursuant to the terms and conditions of the approved CA and 43 CFR 3162.4 Well Records and Reports, you are required to file your well completion report within 30 days of the wells' completion. Within five (5) days of commencement of production, you are also required to file a notice of production startup. Penalties for non-compliance with such requirements are applicable to all wells and facilities on State or privately owned mineral lands committed to a unit or CA, which affects Federal or Indian interests, notwithstanding any provision of the unit or CA to the contrary. Upon approval of the CA, production and royalty reports are due to the Office of Natural Resources Revenue (ONRR). The submission of form MMS-4054, Oil and Gas Operations Report (OGOR), must begin once drilling is completed. OGORs must be submitted to ONRR by the 15<sup>th</sup> day of the second month following the production month. Royalty payments, along with the form MMS-2014, Report of Sales and Royalty Remittance, are due on or before the last day of the month following the month during which oil or gas was produced and sold.

If the communitized well(s) are producing, any production royalties that are due must be reported and paid within 90 days of the Bureau of Land Management's approval date or the payors will be assessed interest for late payment under the Federal Oil and Gas Royalty Management Act of 1982 (See 30 CFR 218.54).

If you have any questions concerning reporting, locate your company contact at <http://www.onrr.gov/ReportPay/PDFDocs/operasgn.pdf>. Questions concerning Form 2014, call 1-800-525-9167 and Oil and Gas Operations Reports, call 1-800-525-7922.

If you have any questions regarding the Communitization Agreement, please contact Virginia Barber at [vbarber@blm.gov](mailto:vbarber@blm.gov) or telephone (505) 564-7754.

Sincerely,



for Richard A. Fields  
Farmington Field Office Manager

Enclosure 1 - Approved Communitization Agreement

cc: ONRR, MS-357 B1, Denver, CO

NMOCD, Santa Fe (w/o encl.)

NM Tax & Rev. Dept

NMSO (93000) (w/o encl.)

bcc: CA file (NMNM-138536)

Lease File (NMSF-078277)

LR2000/AFMSS/21110: vbarber/07-10-18

ONLINE Version  
COMMUNITIZATION AGREEMENT

Contract No. NM138536

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:

Subdivisions W/2: Tract 1B 80.00 ac., Lots 1 35.22 ac., 2 34.32 ac., 3 38.96 ac., Track 37, 113.28 ac., Lot 4 18.22 ac.,

Sect 7, T 29N, R 5W, NMPM Rio Arriba County NM

containing 320.00 acres, more or less, and this agreement shall include only the

Pictured Cliffs Formation

underlying said lands and the natural gas and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

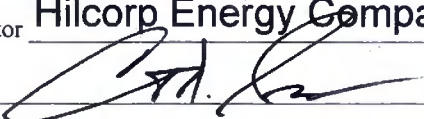
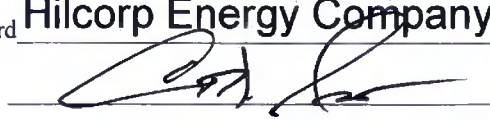
2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit "B" designating the operator of the communitized area and showing the acreage, percentage, and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing 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.
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 dated May Month 2 Day, 2018 Year, 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.
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.

Operator	<b>Hilcorp Energy Company</b>	Lessees of Record	<b>Hilcorp Energy Company</b>
By			
	Curtis D. Smith, Senior Vice President - Land		
	Print name of person	Type of authority	

Attach additional page(s) if needed.

[Acknowledgments are on following page.]

**Acknowledgment in an Individual Capacity**

State of \_\_\_\_\_)

County of \_\_\_\_\_) <sup>SS)</sup>

This instrument was acknowledged before me on \_\_\_\_\_

DATE

By \_\_\_\_\_

Name(s) of Person(s)

(Seal)

Signature of Notarial Officer

My commission expires: \_\_\_\_\_

**Acknowledgment in a Representative Capacity**

State of Texas \_\_\_\_\_)

County of Harris \_\_\_\_\_) <sup>SS)</sup>

This instrument was acknowledged before me on 5/24/18

DATE

By Curtis D. Smith

Name(s) of Person(s)

as Senior Vice President

of

Hilcorp San Juan, L.P.

Hilcorp Energy Company

Type of authority, e.g., officer, trustee, etc

Name of party on behalf of whom instrument was executed



[Signature]

Signature of Notarial Officer

My commission expires: 11.26.2020

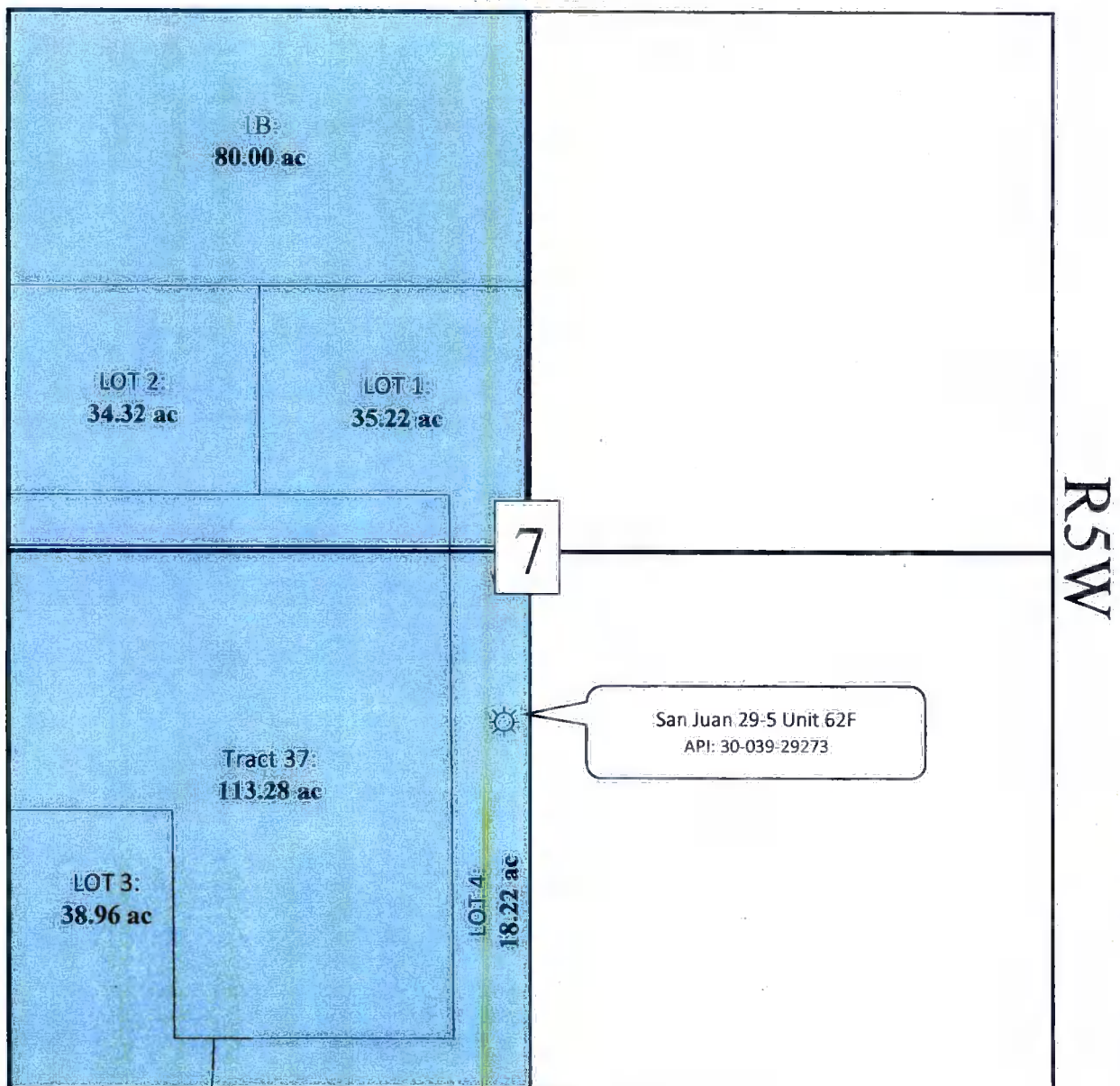
**Exhibit A**

**Plat of Communitized Area**

Township 29 North, Range 5 West, Section 7: W/2, NMPM  
Rio Arriba County, New Mexico

San Juan 29-5 Unit 62F  
Picture Cliffs Formation

**T29N**





**EXHIBIT B**

To Communitization Agreement dated \_\_\_\_\_ 20\_\_\_\_, embracing the  
Subdivisions W/2  
of Section 7, T 29N, R 5W, N.M.P.M., Rio Arriba County, NM

Operator of Communitized Area: Hilcorp Energy Company

**DESCRIPTION OF LEASES COMMITTED****TRACT NO. 1**

Lease Serial No.: NMSF 078277  
Lease Date: July 1, 1949  
Lease Term: HBP  
Lessor: United States of America  
Original Lessee: Dan W. Johnston et ux  
Present Lessee: Hilcorp Energy Company  
Description of Land Committed: Subdivisions Lots 1B, 1, 2, 3, N2NW  
Sect 7, Twp 29N, Rng 5W, NMPM, Rio Arriba County, NM  
Number of Acres: 188.50  
Royalty Rate: 12.5%  
Name and Percent ORRI Owners: Variable - Various Owners  
Name and Percent WI Owners: Hilcorp Energy Company - 100%

**TRACT NO. 2**

Lease Serial No.: 2439301  
Lease Date: April 16, 1949  
Lease Term: HBP  
Lessor: United States of America  
Original Lessee: J. Felix Gomez et ux  
Present Lessee: Hilcorp Energy Company  
Description of Land Committed: Subdivisions TR37, Lot 4  
Sect 7, Twp 29N, Rng 5W, NMPM, Rio Arriba County, NM  
Number of Acres: 131.50  
Royalty Rate: 12.5%  
Name and Percent ORRI Owners: Variable - Various Owners  
Name and Percent WI Owners: Hilcorp Energy Company - 100%

## RECAPITULATION

Tract numbers	Number of Acres Committed	Percentage of Interest in Communitized Area
Tract No.1	<u>188.50</u>	<u>58.9063</u>
Tract No.2	<u>131.50</u>	<u>41.0937</u>
Tract No.3	<u>          </u>	<u>          </u>
Tract No.4	<u>          </u>	<u>          </u>