

NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

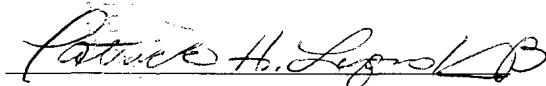
**Wiser Oil Company
State AZ Well No. 3
Eddy County, New Mexico
SW4SW4SW4, Section 16; SE4SE4SE4, Section 17; NE4NE4NE4, Section 20; NW4NW4NW4, Section 21,
Township 17 South, Range 31 East
Yates, Seven Rivers, Queen, Grayburg, San Andres**

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, 1998** 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 **11th day of June, 2003**.



COMMISSIONER OF PUBLIC LANDS

of the State of New Mexico



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL FIELD OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019

IN REPLY REFER
NMNM109694
3105.2 (06300)

JUN 30 2003

James Bruce
Attorney at Law
P. O. Box 1056
Santa Fe, NM 87504

Dear Mr. Bruce:

Enclosed is one approved copy of Communitization Agreement NMNM109694, filed on behalf of The Wiser Oil Company, involving 20.00 acres of land in Federal lease LC-029395B, 10.00 acres of land in Federal lease NM-98122, and 10.00 acres of State land in Eddy County, New Mexico, comprising a 40.00 acre well spacing unit.

The agreement communitizes all rights as to oil and associated natural gas producible from the Yates, Seven Rivers, Queen, Grayburg, and San Andres formations in the SW1/4SW1/4SW1/4 section 16, SE1/4SE1/4SE1/4 sec. 17, NE1/4NE1/4NE1/4 sec. 20, and the NW1/4NW1/4NW1/4 sec. 21, T. 17 S., R. 31 E., NMPM, and is effective May 1, 1998.

Approval of this agreement does not warrant or certify that the operator, thereof, and other working interest owners hold legal or equitable title to the leases which are committed hereto.

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 need assistance or clarification, please contact the Minerals Management Service at 1-800-525-9167 or 303-231-3504.

Please furnish all interested principals with appropriate evidence of this approval.

Sincerely,

Larry D. Bray
Assistant Field Manager,
Lands and Minerals

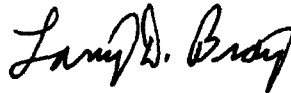
1 Enclosure:
1 - Communitization Agreement

Determination - Approval - Certification

Pursuant to the authority vested in the Secretary of the Interior under Section 17(j) of the Mineral Leasing Act of 1920, as amended (74 Stat. 784; 30 U.S.C. 226(j)), and delegated to the authorized officer of the Bureau of Land Management, I do hereby:

- A. Determine that the Federal lease or leases as to the lands committed to the attached agreement 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 that consummation and approval of the agreement will be in the public interest. Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject leases which are committed hereto.
- B. Approve the attached communitization agreement covering the SW1/4SW1/4SW1/4 section 16, SE1/4SE1/4SE1/4 sec. 17, NE1/4NE1/4NE1/4 sec. 20, NW1/4NW1/4NW1/4 sec. 21, T. 17 S., R. 31 E., NMPM, Eddy County, New Mexico, as to oil and associated natural gas producible from the Yates, Seven Rivers, Queen, Grayburg, and San Andres formations. This approval will become invalid if the public interest requirements under section 3105.2-3(e) are not met.
- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of the agreement.

Approved: June 30, 2003



Authorized Officer

Effective: May 1, 1998

Contract No.: Com. Agr. NMNM109694

STATE/FEDERAL

OR

STATE/FEDERAL/FEE

COMMUNITIZATION AGREEMENT

Contract No. NMNM 109694

THIS AGREEMENT is 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 "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 lands 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 this 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 17 South, Range 31 East, N.M.P.M.

Section 16: SW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$
Section 17: SE $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$
Section 20: NE $\frac{1}{4}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$
Section 21: NW $\frac{1}{4}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$

Eddy County, New Mexico,
containing 40 acres, more or less, and this agreement shall include ~~oil and associated natural gas~~ in the Yates, Seven Rivers, Queen, Grayburg, and San Andres formations underlying said lands and the oil and associated natural gas (hereinafter referred to as "communitized substances") producible from such formations from the State AZ Well No. 3. This agreement shall apply separately to the Yates, Seven Rivers, Queen, Grayburg, and San Andres formations in the same manner as though a separate agreement for each formation had been entered into.

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, the allocation of oil and gas production to the tracts 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 duly 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 non-communitized 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 allocations, 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 if such failure results from, compliances with any such laws, orders, rules, or regulations.

10. The date of this agreement is May 1, 1998, and it shall become effective as of this date or from the onset of production of communitized substances, whichever is earlier, upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or his duly authorized representative, and by the Commissioner or his duly authorized representative, and shall remain in force and effect as to the Yates, ^{Indiv. Quality} Seven Rivers, Queen, Grayburg, and San Andres formations, for a period of two (2) years and so long thereafter as communitized substances are, or can be, produced in paying quantities from communitized formations or formation; provided further that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, and all the 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 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.

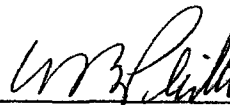
12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States 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 operating regulations of the State of New Mexico.
13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, devisees, 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, and may be ratified or consented to be 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 above written and have set opposite their respective names the date of execution.

OPERATOR, LESSEE, AND WORKING
INTEREST OWNER:

The Wiser Oil Company

By: _____



W. B. Phillips
Vice-President

LESSEE:

BP America Production Company

By: Walter Phillips *WPH*

LESSEE AND WORKING INTEREST
OWNER:

Merit Energy Company

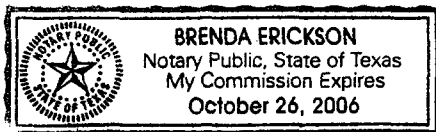
By: C. Scott Gladden *CSG* **C. Scott Gladden**
Assistant General Counsel

For Merit Energy Company as the General
Partner of Merit Partners' L.P. and Merit
Energy Partners III, L.P. and the General
Partner of the General Partners of Merit
Energy Partners D-III, L.P.

ACKNOWLEDGEMENT

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

The foregoing assignment was acknowledged before me this
20th day of February, 2003, by W. B. Phillips,
Vice-President of The Wiser Company, a Delaware corporation,
on behalf of the corporation.



Brenda Erickson
Notary Public

My Commission Expires:

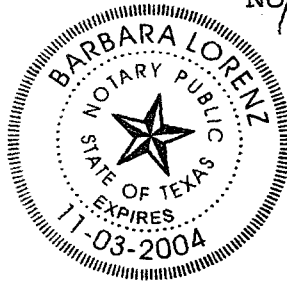
ACKNOWLEDGEMENT

STATE OF Texas)
) ss.
COUNTY OF Harris)

The foregoing assignment was acknowledged before me this 14th day of January, 2003, by Thalia R Gelbs,
~~Vice-President~~ of BP America Production Company, a Delaware
~~Attorney in fact~~ corporation, on behalf of the corporation.

Barbara Lorenz
Notary Public

My Commission Expires:



ACKNOWLEDGEMENT

STATE OF TEXAS)
) ss.
COUNTY OF Dallas)

ll The foregoing assignment was acknowledged before me this 19th day of January, 2003, by C. Scott Gaudin Assistant General Counsel
ll ~~Vice-President~~ of Merit Energy Company, a Delaware
corporation, on behalf of the corporation.

Stephanie Lott
Notary Public

My Commission Expires:

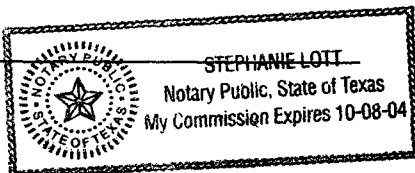


EXHIBIT "A"

To Communitization Agreement embracing the following lands in Eddy County, New Mexico:

Township 17 South, Range 31 East, N.M.P.M.

Section 16: SW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$

Section 17: SE $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 20: NE $\frac{1}{4}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$

Section 21: NW $\frac{1}{4}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$

State AZ Well No. 3

Operator of Communitized Area: The Wiser Oil Company

17	16
	* State AZ No. 3
20	21

EXHIBIT "B"

To Communitization Agreement embracing the following lands in Eddy County, New Mexico:

Township 17 South, Range 31 East, N.M.P.M.

Section 16: SW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$

Section 17: SE $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 20: NE $\frac{1}{4}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$

Section 21: NW $\frac{1}{4}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$

State AZ Well No. 3

Operator of Communitized Area: The Wiser Oil Company

Description of Leases Committed

Tract No. 1:

Lease Serial No.: B-1565-13

Lease Date: November 20, 1928

Lease Term: Five years

Lessor: State of New Mexico

Original Lessee: George F. Getty Oil Company

Present Lessee: The Wiser Oil Company

Description of Lands Committed:

Township 17 South, Range 31 East, N.M.P.M.

Section 16: SW $\frac{1}{4}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$

Number of Acres: Ten

Royalty Rate: 1/8

Overriding Royalties: None

Working Interest Owner: The Wiser Oil Company (surface to base of San Andres formation)

Tract No. 2:

Lease Serial No.: LC 029395(b)

Lease Date: June ¹³~~6~~, 1934

Lease Term: Five years

MLO

Lessor: United States of America
Original Lessee: Danciger Oil & Refining Co.
Present Lessee: BP America Production Company

Description of Lands Committed:

Township 17 South, Range 31 East, N.M.P.M.

Section 17: SE $\frac{1}{4}$ SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 20: NE $\frac{1}{4}$ NE $\frac{1}{4}$ NE $\frac{1}{4}$

Number of Acres: Twenty
Royalty Rate: Schedule "D"
Overriding Royalties: None
Working Interest Owner: Merit Energy Company

Tract No. 3:

Lease Serial No.: NM 98122, segregated from LC 029420(b)

Lease Date: April 30, 1938

Lease Term: Five years

Lessor: United States of America
Original Lessee: Skelly Oil Company
Present Lessee: The Wiser Oil Company

Description of Lands Committed:

Township 17 South, Range 31 East, N.M.P.M.

Section 21: NW $\frac{1}{4}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$

Number of Acres: Ten
Royalty Rate: Schedule "D"
Overriding Royalties: 1% total
Working Interest Owner: The Wiser Oil Company

RECAPITULATION

<u>Tract No.</u>	<u>No. of Acres Committed</u>	<u>Percentage Interest in Communitized Area</u>
1	10	25%
2	20	50%
3	10	25%
	<u>40.00</u>	<u>100.00%</u>

ML^o