

STATE/STATE
OR
STATE/FEE

COMMUNITIZATION AGREEMENT

STATE OF NEW MEXICO

COUNTY OF EDDY KNOW ALL MEN BY THESE PRESENTS:

THAT THIS AGREEMENT* is entered into as of January 1, 2003 by and between the parties subscribing, ratifying or consenting hereto, such parties hereinafter being referred to as "Parties hereto";

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by the Legislature, as set forth in Sec. 19-10-53, New Mexico Statutes, Annotated, 1978, in the interest of conservation of oil & gas and the prevention of waste to consent to and approve the development or operation of State lands under agreements made by lessees of oil & gas leases, thereon, jointly or severally with other oil & gas lessees of State 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 an order, rule or regulation of the New Mexico Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department where such agreement provides for the allocation of the production of oil or gas from such pools or communitized area on an acreage or other basis found by the Commissioner to fair and equitable.

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 leases 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 Pennsylvanian* formations (hereinafter referred to as "said formations") in and under the land hereinafter described cannot be independently developed and operated in conformity with the well spacing program established for such formations 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 formations in and under the land hereinafter described subject to the terms hereof.

**This agreement not to be used for helium or carbon dioxide*

OIL CONSERVATION DIVISION
CASE NUMBER _____
EXHIBIT 2

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 undersigned as follows:

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

Township 18 South, Range 32 East, N.M.P.M.

Section 16: E/2

Lea County, New Mexico

containing **320** acres, more or less. It is the judgment of the parties hereto that the communitization, pooling and consolidation of the aforesaid land into a single unit for the development and production of hydrocarbons from the said formations 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 Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, and in order to promote the conservation of the hydrocarbons in and that may be produced from said formations in and under said lands, and would be in the public interest;

AND, for the purposes aforesaid, the parties hereto do hereby communitize for proration or spacing purposes only the leases described in Exhibit "A" hereto insofar as they cover hydrocarbons within and that may be produced from the said formations (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 formations beneath said lands.

Attached hereto and made a part of this agreement for all purposes, is Exhibit "A" showing the acreage, 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 hereto 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 4, 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 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. The State of New Mexico hereafter is entitled to the right to take in kind its share for the communitized substances allocated to such tract, and Operator shall make deliveries of such royalty share taken in kind in conformity with applicable contracts, laws, and regulations.
5. There shall be no obligation upon the parties hereto 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 hereto 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.
6. The commencement, completion, and continued operation or production of a well or wells for 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.
7. 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. This agreement shall be subject to all applicable Federal and State laws, executive orders, rules and regulations affecting the performance of the provisions hereof, 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 compliance is prevented by or if such failure results from compliance with any such laws, orders, rules and regulations.
8. **Chi Operating, Inc.** shall be the Operator of said communitized area and all matters of operation shall be determined and performed by **Chi Operating, Inc.**
9. This agreement shall be effective as of the date hereinabove written upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Commissioner of Public Lands, 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; provided, that this agreement shall not expire if there is a well capable of 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 held by production from another well. Provided further, however, that prior to production in paying quantities from the communitized area, and upon fulfillment of all requirements of the Commissioner of Public Lands 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 hereto. This agreement shall not terminate upon cessation of production of communitized substances if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted 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 (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 Commmissioner 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.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy, Mineral and Natural Resources Department, and the Commissioner of Public Lands of the State of New Mexico, 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.
11. It is agreed between the parties hereto that the Commissioner of Public Lands, or his duly authorized representative, shall have the right 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 of New Mexico.
12. If any order of the Oil Conservation Division of the New Mexico Energy Minerals and Natural Resources Department, 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.

13. 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.
14. 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.

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

OPERATOR:

Chi Operating, Inc. .

By: _____

Lessees of Record:

Shenandoah Oil Corporation

By: _____

Name : _____

Title: _____

Devon Energy Operating, LP

By: _____

Name: _____

Title: _____

EXHIBIT "A"

Attached to and made a part of that Communitization Agreement dated _____, with Chi Operating, Inc., and Devon Energy Corporation covering the E/2 of Section 18, Township 32 South Range 28 East, Lea County, New Mexico.

Operator of Communitized Area:

Company: Chi Operating, Inc.

Description of Leases Committed:

Tract No. 1

Lessor: State of New Mexico acting by and through its Commissioner of Public Lands

Lessee of Record: Shenandoah Oil Corporation
Serial No. of Lease: E-10001
Date of Lease: April 17, 1956
Description of Lands Committed: T-18S-R-32E, N.M.P.M. Section 16: NW/4NE/4

No. of Acres:
40

Tract No. 2

Lessor: State of New Mexico acting by and through its Commissioner of Public Lands.

Lessee of Record: Devon Energy Operating, LP
Serial No. of Lease: V-1357
Date of Lease: January 1, 1985
Description of Lands Committed: T-18S-R-32E, N.M.P.M. Section 16: NE/4NE/4; S/2NE/4

No. of Acres:
120

Tract No. 3

**Lessor: State of New Mexico actbing by and through
Its Commissioner of Public Lands.**

Lessee of Record: Devon Energy Operating LP

Serial No. of Lease: V-5308

Date of Lease: May 1, 1998

**Description of Lands
Committed: T-18S-R-32E, N.M.P.M.
Section 16: SE/4**

No. of Acres:

160

RECAPITULATION

TRACT NO.	NO. OF ACRES COMMITTED	PERCENTAGE OF INTEREST IN COMMUNITIZED AREA
TRACT NO. 1	40	12.5%
TRACT NO. 2	120	37.5%
TRACT NO. 3	<u>160</u>	<u>50.0%</u>
TOTAL	320	100.00%

AFFIDAVIT OF PUBLICATION

State of New Mexico,
County of Lea.

I, KATHI BEARDEN

Publisher

of the Hobbs News-Sun, a newspaper published at Hobbs, New Mexico, do solemnly swear that the clipping attached hereto was published once a week in the regular and entire issue of said paper, and not a supplement thereof for a period.

of 1 weeks.
Beginning with the issue dated

May 2 2003

and ending with the issue dated May 2 2003

Kathi Bearden
Publisher

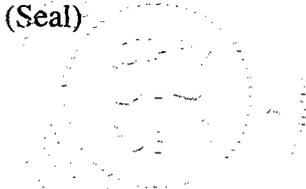
Sworn and subscribed to before

me this 2nd day of

May 2003

Jodi Benson
Notary Public.

My Commission expires
October 18, 2004
(Seal)



This newspaper is duly qualified to publish legal notices or advertisements within the meaning of Section 3, Chapter 167, Laws of 1937, and payment of fees for said publication has been made.

LEGAL NOTICE
May 2, 2003
To: Successors of Shenandoah Oil Corporation, a dissolved corporation; Chi Energy, Inc., has filed an application with the Oil Conservation Division for compulsory pooling of the E-12 of Section 16, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico. The matter is scheduled to be heard at 8:15 a.m. on Thursday, May 22, 2003 at the Division's offices at 1220 South St. Francis Drive, Santa Fe, New Mexico 87505. Failure to appear at the hearing will preclude you from contesting this matter at a later date. The well unit is located approximately 7 1/2 miles south of Maljamar, New Mexico.
#19785

OIL CONSERVATION DIVISION

CASE NUMBER _____

EXHIBIT 3

01101711000 02563782

James Bruce
P.O. Box 1056
SANTA FE, NM 87504