



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

HALLWOOD ENERGY COMPANIES - QUINOCO JAQUEZ K2 COM WELL # 2

SAN JUAN COUNTY, NEW MEXICO

W/2 Section 2, Township 31 North, Range 13 West - Fruitland Coal - 319.80 acres

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated March 1, 1990, 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 energy in said area.
- (b) That under the proposed agreement, the State will receive its fair share of the recoverable 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 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 21st day of August, 19 90

W. R. Humphries
COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

Tract No. 2 5

Lessor: E. Ellison Hatfield and
Virginia R. Hatfield
(BK 317, Pg 158)

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

XX
XX
XXXXX
EM Nominee Partnership Company 70.40625%
Consolidated Oil and Gas, Inc. 29.59375%
Fee
January 10, 1957
T31N-R13W
Sec. 2: W/2SW/4, Lot 4(NW/4NW/4) & SW/4NW/4

No. of Acres:

159.95 gr/ 59.98 net

Tract No. * 6

Lessor: Guy A. Bell Sr. and
Elsie Bell
(BK 313, Pg 179)

Swamp xxx of xxx New xxx Mexico xxx xxx xxx and
through xxx xxx xxx xxx xxx xxx xxx xxx
xxxxxx

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

| | |
|--------------------------------|-----------|
| EM Nominee Partnership Company | 70.40625% |
| Consolidated Oil and Gas, Inc. | 29.59375% |
| <hr/> | |
| Fee | |
| <hr/> | |
| June 6, 1956 | |
| <hr/> | |
| T31N-R13W | |
| <hr/> | |
| Sec. 2: W/2SW/4 | |

No. of Acres:

80 gr/ 20 net

RECAPITULATION

TRACT NO.

NO. OF ACRES
COMMITTED

PERCENTAGE OF INTEREST
IN COMMUNITIZED AREA

Lease No. 1

Lease No. 2

Lease No. 3

Lease No. 4

Tract No. ~~XX~~ 7

Lessor: Julio M. Tafoya and
Lena R. Tofoya
(BK 316, Pg 116)

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

~~XX~~
~~XX~~
~~XXXXXX~~
EM Nominee Partnership Company 70.40625%
Consolidated Oil and Gas, Inc. 29.59375%
Fee
November 23, 1956
T31N-R13W
Sec. 2: Lot 4 (NW/4NW/4) and SW/4NW/4

No. of Acres:

79.95 gr/ 19.99 net

Tract No. ~~X~~

Lessor:

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

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

No. of Acres:

RECAPITULATION

| TRACT NO. | NO. OF ACRES COMMITTED | PERCENTAGE OF INTEREST IN COMMUNITIZED AREA |
|-------------|-----------------------------|--|
| Lease No. 1 | 40.0 | 12.5% |
| Lease No. 2 | 79.85 | 25.0% |
| Lease No. 3 | 40.0 | 12.5% |
| Lease No. 4 | 159.95 gr/59.98 net | 18.75% |
| Lease No. 5 | 159.95 gr/49.98 net | 18.75% |
| Lease No. 6 | 80.0 gr/ 20.0 net | 6.25% |
| Lease No. 7 | <u>79.95 gr/ 199.99 net</u> | 6.25% |
| | 319.8 gr/net | |

Rev. 6/21/1989

COMMUNITIZATION AGREEMENT

STATE OF NEW MEXICO) KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF San Juan

THAT THIS AGREEMENT* is entered into as of the 1st of March 1990, 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 Laws, 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 any 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 be fair and equitable.

WHEREAS, the parties hereto, being oil and gas lessees of record, covering lands subject to this agreement, insofar as such leases cover the lands hereinafter described, 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 Fruitland Coalformation(s) (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 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 "communitized area") are described as follows:
Township 31N Range 13W N. M. P. M.

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

Section 2: W/2

San Juan County, New Mexico
containing 319.80 acres, more or less, and so hereby declare that 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 formation in and under said land is necessary and advisable in order to properly develop and produce the hydrocarbons in the said formation beneath said land in accordance with the spacing rules of the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department, State of New Mexico, 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 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 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, and ownership (Lessees of Record) of all lands 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 the undersigned 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 or statutes. 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. Quinoco Petroleum, Inc. shall be the Operator of said communitized area and all matters of operation shall be determined and performed by Quinoco Petroleum, 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 commercial 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 well is shut-in due to the inability of the operator to obtain a pipeline connection or to market the gas therefrom, and if 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; provided further, however, that prior to production in commercial 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 during the period of non-production.

10. Operator will furnish the Oil Conservation Division of the New Mexico Energy Minerals 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 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 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: Quinoco Petroleum, Inc., as Agent
BY: and Operator for EM Nominee
Partnership Company.

ATTEST:

Cathleen M. Osborn
Secretary

LESSEES OF RECORD:

Russell P. Meduna
Executive Vice-President

ATTEST:

Jacelyn N. Thomas
Assistant Secretary

Consolidated Oil & Gas, Inc.

By: George M. Simmons
President & Chief Executive Officer

STATE OF _____)

COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____
19____ by _____, as Attorney in Fact on behalf of

Company.

My Commission Expires

Notary Public

STATE OF COLORADO)
COUNTY OF DENVER) ss

The foregoing instrument was acknowledged before me this 15th day of May, 1990 by Russell P. Meduna, as Attorney in Fact on behalf of Quinoco Petroleum, Inc. Company, Agent and Operator for

EM Nominee Partnership Company.

12/5/93

My Commission Expires

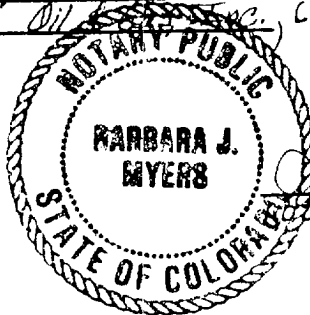
Barbara K. Rogers
Notary Public

STATE OF Colorado)
COUNTY OF Denver) ss

The foregoing instrument was acknowledged before me this 27th day of June, 1990 by George M. Simmons, as Attorney in Fact on behalf of Consolidated Oil & Gas Co. Company.

11-21-92

My Commission Expires



Barbara J. Myers
Notary Public

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ as Attorney in Fact on behalf of _____ Company.

My Commission Expires

Notary Public

STATE OF _____)
COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____ as Attorney in Fact on behalf of _____ Company.

My Commission Expires

Notary Public

EXHIBIT "A"

Attached to and made a part of that Communitization Agreement dated
March 1, 1990 by and between EM Nominee
Partnership Company, and Consolidated Oil & Gas, Inc.,
Company covering the W/2 Section 2
Township 31N Range 13W, County, New Mexico.

Operator of Communitized Area:

Company Quinoco Petroleum, Inc.

Description of Leases Committed:

Tract No. 1

Lessor: A. C. Jaquez and
Virginia D. Jaquez
(BK 125, Pg 98)

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

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

EM Nominee Partnership Company 66.65625%
Consolidated Oil and Gas, Inc. 33.34375%

FEE
November 22, 1946, as amended
T31N-R13W
Sec. 2: NE/4SW/4

No. of Acres:
40.0 gr/net

Tract No. 2

Lessor: Julio Tofoya and
Lena R. Tofoya
(BK 320, Pg 96)

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

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

EM Nominee Partnership Company 66.65625%
Consolidated Oil and Gas, Inc. 33.34375%

Fee
January 28, 1957
T31N-R13W
Sec. 2: Lot 3 (NE/4NW/4) and SE/4NW/4

No. of Acres:
79.85 gr/net

Tract No. 3

Lessor:

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

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

Consolidated Oil and Gas, Inc. 100%
OG-290
October 16, 1956
T31N-R13W
Sec. 2: SE/4SW/4

No. of Acres:

40 gr/net

Tract No. 4

Lessor: R. Y. Austin, Maria Austin
and Mary S. Austin
(BK 317, Pg 157)

~~STATE OF NEW MEXICO acting by and
through its Commissioner of Public
Lands~~

Lessee of Record:
Serial No. of Lease:
Date of Lease:
Description of Lands
Committed:

EM Nominee Partnership Company 70.40625%
Consolidated Oil and Gas, Inc. 29.59375%
Fee
December 29, 1956
T31N-R13W
Sec. 2: W/2SW/4, Lot 4(NW/4NW/4) & SW/4NW/4

No. of Acres:

159.95gr/59.98net

RECAPITULATION

| TRACT NO. | NO. OF ACRES COMMITTED | PERCENTAGE OF INTEREST IN COMMUNITIZED AREA |
|-------------|---------------------------|--|
| Lease No. 1 | | |
| Lease No. 2 | | |
| Lease No. 3 | | |
| Lease No. 4 | | |