

TERM ASSIGNMENT

C-49990

STATE OF NEW MEXICO §
COUNTY OF LEA §

CONOCO INC., a Delaware corporation ("Assignor"), for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and confessed, without warranty of title, express or implied, subject to the reservations, conditions and covenants provided for herein, and only for the term herein provided, does hereby GRANT, BARGAIN, SELL, TRANSFER, ASSIGN and CONVEY unto CHESAPEAKE OPERATING, INC. ("Assignee"), whose address is P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496, all of Assignor's right, title, interest and estate in and to the leases described in Exhibit "A" attached hereto and made a part hereof ("said leases"), together with all rights and privileges thereunder or appurtenant thereto, INsofar AND ONLY INsofar as said leases cover the lands and depths described in Exhibit "A", and only INsofar as said leases cover oil, gas, and other liquid and gaseous hydrocarbons. The leasehold interests herein assigned are hereinafter referred to as "said assigned interest." This Assignment shall be for a term of ninety days (90) from the date hereof ("Primary Term") and, except as expressly provided in Article X hereof, as long thereafter as operations, as hereinafter defined, are conducted upon said assigned interest with no cessation for more than ninety (90) consecutive days, subject to the further terms and conditions contained herein. "Operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, plugging back or repairing a well in search for or in an endeavor to obtain production of the minerals and substances covered by this Assignment, and production of said minerals and substances, whether or not in paying quantities. After the expiration of the Primary Term, said assigned interest and all rights under this Assignment shall terminate, and said assigned interest shall revert to Assignor, except as expressly provided in Article X.

I.

Assignor excepts from this Assignment and reserves to itself all rights, title, interest and estate not expressly assigned hereby, the rights of ingress and egress, and such other rights and easements under and by virtue of said leases, including the concurrent use of water, as may be necessary or desirable to explore, develop and operate the interest of Assignor in said leases.

II.

This Assignment is made and accepted subject to, and Assignee hereby assumes, any and all lease burdens to which said leases may be subject, INsofar as such lease burdens cover and affect said assigned interest. The term "lease burdens" as used in this Assignment with respect to said assigned interest for each of said leases shall mean the royalty and any other interest in production reserved to the owners of the minerals covered by each of said leases, plus all overriding royalties, production payments, carried working interests, net profits interests, and all other burdens and encumbrances to which said assigned interest is subject on the effective date of this Assignment, excluding the overriding royalty described in Article III.

III.

Assignor reserves to itself as an overriding royalty six and one-quarter percent (6.25%) of 8/8ths of the oil, gas and other liquid and gaseous hydrocarbons produced and saved from said assigned interest during the term thereof including any extensions or renewals of said leases, which fractional part of such oil, gas and other liquid and gaseous hydrocarbons produced and saved shall be, at the option of Assignor, either delivered to Assignor in kind or the market value thereof paid to Assignor. Market value for the interest in production owned by Assignor shall never be less than the price realized by Assignee for its portion of the production sold, including the fractional part of the net realization from plant products, when and if gas production is processed. The overriding royalty interest reserved by Assignor shall be free and clear of all costs of exploring, drilling, producing, separating, treating, and marketing such oil, gas and other liquid gaseous hydrocarbons. The overriding royalty reservation shall be a charge and burden upon said assigned interest, with the understanding, however, that said overriding royalty shall be less any and all production, severance or other taxes, except gathering taxes, levied and assessed against the same or against the production by which the same is measured and which Assignee may be authorized by law to deduct and pay. The fractional interest in production reserved as an overriding royalty is on the basis of said leases covering a full mineral interest and Assignor holding all leasehold rights therein. In the event that any of said leases or Assignor's interest therein does not cover a full mineral interest, the fractional interest in production reserved herein as an overriding royalty shall be proportionately reduced as to that lease. If Assignee secures an extension or renewal of any lease subject hereto prior to the termination of such lease, or within one (1) year thereafter, or if Assignee secures a new lease covering any or all lands described in said leases prior to termination or within one (1) year thereafter, then the overriding royalty reserved herein by Assignor shall attach to such extension, renewal or new lease, and Assignee shall execute a recordable instrument to evidence the overriding royalty interest of Assignor.

IV.

Assignee accepts said assigned interest subject to all of the express and implied covenants and obligations of said leases, insofar as they relate to said assigned interest. Assignee indemnifies and agrees to respond to, defend and save Assignor harmless from and against any and all claims for damages and forfeiture made by any person, partnership, corporation or other legal entity that is based on any failure, or alleged failure of Assignee to comply with the express or implied obligations of any of said leases as to said assigned interest. Also, Assignee shall indemnify, defend, and save Assignor, together with Assignor's co-lessees and co-venturers, and its and their parents, subsidiaries, affiliates, agents, directors, officers, employees, and servants, harmless from and against all claims, demands, damages, lawsuits, liability, judgments, expenses, attorneys' fees, and court costs of every kind and character arising out of or resulting from this Assignment or the operations of Assignee, its contractors and subcontractors, upon any of the leases and lands covered hereby, including injury to or death of persons, damage to or destruction of property, and environmental damage and cleanup expenses, and including claims based on acts or omissions of Assignee's contractors, subcontractors, heirs, successors and assigns, wherever occurring, regardless whether caused by, and including, the concurrent negligence or fault of Assignor. If any suit is filed on any such claim, Assignee shall immediately notify Assignor and permit Assignor to participate in the defense thereof, this without waiver or impairment of the foregoing indemnities to Assignor.

Prior to commencing operations for drilling of any well on said assigned interest or acreage pooled therewith, Assignee shall obtain at Assignee's expense insurance policies as outlined below to cover all such operations. Assignee shall furnish to Assignor at its address below for approval prior to commencement of such operations hereunder, certificates of insurance signed by authorized representatives of the insurance companies, certifying to insurance coverage in minimum amounts as follows:

1. Insurance which shall comply with all applicable Workers' Compensation and Occupational Disease Laws and which shall cover all of Assignee's employees performing any work hereunder. Assignee shall carry Employer's Liability coverage with a limit of not less than \$1,000,000.
2. Comprehensive/Commercial General Public Liability insurance with a combined bodily injury and property damage limit of not less than \$1,000,000 for each occurrence. Such insurance shall include coverage for all liability assumed by Assignee under the terms of this Assignment with limits not less than those set out above.
3. Automobile Liability insurance with a combined bodily injury and property damage limit of not less than \$1,000,000 for each occurrence.
4. Assignee agrees to require each of its contractors and subcontractors to carry and pay for Workers' Compensation and Occupational Disease insurance, along with such other insurance as required by law.
5. Such other insurance as Assignee considers necessary or as required by law.

BEFORE THE

OIL CONSERVATION COMMISSION

Case No. 11836 Exhibit No. 2

Submitted By:

Chesapeake Inc.

Hearing Date: August 21, 1997

All such insurance shall be written on policy forms and by insurance companies approved by Assignor. Assignee hereby waives all rights of recovery or subrogation, and shall ensure that its insurers and its contractors' and subcontractors' insurers waive all rights of recovery or subrogation, against Assignor and Assignor's co-lessees and co-venturers, and its and their parents, subsidiaries, affiliates, agents, directors, officers, employees, and servants. The insurance coverages required above are the Assignor's minimum requirements and are not to be considered as indicative of the ultimate amounts or types of insurance needed by Assignee. Neither failure to comply nor full compliance with the insurance provisions of the lease agreement shall limit or relieve Assignee from holding Assignor harmless in compliance herewith.

V.

Assignor will render and pay any ad valorem taxes on said assigned interest for the year in which this Assignment becomes effective. Assignee shall, upon billing by Assignor, reimburse Assignor for the amount of taxes so paid. For all subsequent years, Assignee shall render and pay all ad valorem taxes assessed against said assigned interest.

VI.

Assignee shall furnish to Assignor the notices and reports as provided in Exhibit "B" attached hereto and shall conduct the tests and surveys provided for therein. Assignor's employees and authorized representatives shall have full access to said assigned interest and all wells and Assignee's operations thereon, and may witness such tests and surveys and the results thereof, and all operations conducted hereunder, at Assignor's risk and expense.

VII.

If Assignor retains an oil and gas operating interest in said leases, Assignor shall pay any delay rentals necessary to maintain in force and effect said leases insofar as they cover the lands described in Exhibit "A" and Assignee shall promptly reimburse Assignor for the amount paid upon receipt of invoice; PROVIDED, HOWEVER, Assignor shall not be liable to Assignee for its failure to timely and properly make such payments for any reason, including negligence. If any rental payment is applicable both to lands assigned hereby and to other lands, such payment shall be prorated on a surface acre basis. If Assignee, by the performance hereunder, completes a gas well and a shut-in payment based on such completion is required to maintain any of said leases under the terms thereof, Assignee shall pay all shut-in payments that may be required to maintain said leases or any of them in force and effect and this Assignment in like manner shall also be continued in force and effect as though operations were being conducted on said assigned interest for so long as said well completed by Assignee is shut-in and such shut-in payments are properly made by Assignee in accordance with the terms of said leases; PROVIDED, HOWEVER, Assignee shall not have any liability to Assignor if Assignee fails to timely and properly make any shut-in payment. If minimum royalty payments are required under said leases, prior to production, Assignor shall pay all required minimum royalty payments. Thereafter, Assignee shall be responsible for minimum royalty payments. Neither party shall be liable for failure to timely and properly make minimum royalty payments for any reason, including negligence.

Assignee shall not at any time release any of said leases to the owners of the minerals thereunder except as expressly provided herein. Should Assignee elect to discontinue Assignee's interest in any of said leases, or upon plugging and abandoning the last producing well drilled by Assignee on said leases or lands pooled or unitized therewith, Assignee shall notify Assignor in writing. Assignor shall have thirty (30) days after receipt of Assignee's written notice to elect whether to permit Assignee to release said leases insofar as they cover Assignee's interest in said assigned interest, or to take a reassignment of such interest. Failure to respond shall be deemed an election to permit Assignee to release. If Assignor elects to take a reassignment, Assignee shall execute and deliver to Assignor a reassignment of all Assignee's interests in said assigned interest, excluding all wells and other fixtures or personal property, on a form satisfactory to Assignor, and Assignor shall thereupon assume Assignee's obligations under said leases as to the rights reassigned arising subsequent to the reassignment, except as expressly provided in this Assignment. If Assignee's election to discontinue is made within the time that any of said leases, or any part thereof, is maintained by the payment of delay rentals, such election shall be made at least forty-five (45) days before the date the next rental payment is due and payable; otherwise, Assignee shall reimburse Assignor for any such rental payment made hereunder. The reassignment tendered to Assignor shall warrant the reassigned interest free and clear of any mortgage, lien, encumbrance, claims, contractual obligations, overriding royalty burden or production payment created by, through or under Assignee or by its authority.

VIII.

This Assignment and all rights, reservations and covenants in connection herewith shall be considered covenants running with the lands and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns; PROVIDED, HOWEVER, no transfer or encumbrance of any of said assigned interest shall be made unless the same be made expressly subject to this Assignment and unless the vendee, assignee, or transferee shall assume all of the obligations of this Assignment; and PROVIDED, FURTHER, no transfer of any said assigned interest shall be valid or have any force or effect unless Assignor is furnished with a certified copy of the recorded instrument or order of a competent court evidencing the transfer of ownership.

IX.

The addresses for the giving of all notices required hereunder, until changed by written notice to the same addresses, shall be as follows:

ASSIGNOR	Conoco Inc. 10 Desta Drive, Suite 100W Midland, Texas 79705-4500 Attn: Division Manager	ASSIGNEE	Chesapeake Operating, Inc. P.O. Box 18496 Oklahoma City, Oklahoma 73154-0496
----------	--	----------	--

X.

If within the Primary Term, Assignee has drilled and completed a well or wells capable of producing oil and/or gas in paying quantities on said assigned interest or acreage pooled therewith, or if Assignee is engaged in actual drilling operations at the expiration of the Primary Term which drilling operations result in completion as a producer or abandonment as a dry hole, Assignee shall have the option, but not the obligation, to conduct a continuous development program on said assigned interest. If Assignee elects to conduct such a program, Assignee shall then commence at Assignee's sole cost, risk and expense, the drilling of a well at a location of Assignee's choice on said assigned interest or acreage pooled therewith within 120 days of the expiration of the Primary Term or 120 days from completion or abandonment of any well or wells drilled over the expiration of the Primary Term of this Assignment, whichever is the later date. Thereafter, not more than 120 days shall elapse between completion of one well and the commencement of actual drilling operations on the next succeeding well. For purposes of this Assignment, completion shall be deemed to be the date of drilling rig release. Upon the expiration of the Primary Term of this Assignment or the continuous development program described in this Article X, whichever is later, this Assignment and all rights created hereunder shall terminate as to all lands and depths covered hereby, and said assigned interest shall revert to Assignor, save and except that portion of said assigned interest included within the proration or pooled unit of each well producing or capable of producing oil and/or gas in paying quantities as to those depths under said proration or pooled unit from the surface of the earth down to a depth of 100' below the deepest perforation of said well. The term "proration unit" as used herein, shall mean the area within the surface boundaries of the proration unit then established or prescribed by field rules or special order of the appropriate regulatory authority for the reservoir in which the well is completed. In the absence of such field rules or special order, the proration unit shall be deemed to be 80 acres of land in the form of a square as near as practicable surrounding a well completed as a gas well producing or capable of production in paying quantities and 40 acres of land in the form of a square as near as practicable surrounding a well completed as an oil well producing or capable of production in paying quantities. Upon termination or partial termination of this Assignment and the rights created hereunder, Assignee shall promptly provide Assignor with a fully executed and recordable release of this Assignment and reassignment to Assignor for all lands and depths which have so terminated, on a form satisfactory to Assignor, free and clear of any mortgage, lien, encumbrance, claims, contractual obligations, overriding royalty burden or production payment created by, through or under Assignee or by its authority.

XI.

Assignor reserves and shall have the ongoing preferential right and option, but not the obligation, to purchase oil or other liquid hydrocarbons produced from the Leases, and payment therefor shall be at Assignor's posted price as specified in Assignor's posted price bulletin in effect on the delivery date for such oil or other liquid hydrocarbons of like kind and quality to that produced from the Leases. If Assignor does not post for the above-referenced oil or other liquid hydrocarbons, then payment shall be based on the published posted price of another major oil company in effect for like kind, quality, and location, which company shall be agreed upon by Assignee and Assignor. Assignor also reserves and shall have the preferential right and option to purchase and/or process natural and casinghead gas, or other gaseous hydrocarbons ("gas") produced from the Leases, with payment for the gas purchased and/or products recovered to be on the basis of an agreement between the parties containing terms generally acceptable in the area. The failure of Assignor to exercise this preferential right and option at any time or times shall not constitute a waiver of this preferential right and option. For the purpose of this Assignment, any exchange or other disposition made by Assignee shall be considered a sale and subject to the preferential right and option of Assignor as provided herein. If the well(s) is completed as an oil or condensate well, notify Director, Lease Marketing and Purchasing, Crude Oil Supply and Trading, Conoco Inc., 10 Desta Drive, Suite 100W, Midland, Texas 79705. If the well(s) is completed as a gas or gas condensate well, notify Coordinator, Gas Supply, Natural Gas and Gas Products, Conoco Inc., 10 Desta Drive, Suite 100W, Midland, Texas 79705.

XII.

By this Assignment, Assignor has conveyed only an interest in oil, gas and other liquid and gaseous hydrocarbons, sulfur and hydrogen sulfide. If carbon dioxide, helium and other inert gasses, and/or other non-hydrocarbons, hereafter called "non-hydrocarbons", are produced with the hydrocarbons assigned hereunder, Assignor reserves to itself such non-hydrocarbons and the right to extract and recover such non-hydrocarbons at any time, provided that Assignor shall bear all costs of extraction and shall pay all royalties which may be due thereon. Assignor also reserves the right to determine the separation, extraction or recovery process, hereafter called "process", to be used, and the type, design and location of process facilities, including the right to conduct process operations at a mutually agreeable point on or off the lease on any pipe line transporting gas from the lands and leases subject hereto; the right of ingress, egress, and other easements necessary to the extraction, recovery, storage, transportation and marketing of reserved non-hydrocarbons; and the right to sufficient fuel gas for use in Assignor's process operations, provided that Assignor shall pay therefor the average price received by Assignee from the sale of gas from said assigned interest, or if there is no such sale, the market value at the well for gas of like kind and quality.

XIII.

Assignee shall comply, and shall require that all of Assignee's contractors and subcontractors comply with, any and all applicable laws and regulations, Federal, state and local, and with the requirements of each regulatory body or official asserting jurisdiction over Assignee's operations under this Assignment.

Assignee shall, at Assignee's sole cost and expense, maintain the lands in a clean and orderly condition, remove all waste products, fill in all pits dug in connection with operations hereunder and restore the lands as nearly as possible to their original condition. Assignee shall properly plug, replug, and abandon all wells drilled by Assignee hereunder. If Assignee fails to perform such restoration and plugging within ninety (90) days after completion or abandonment of any operation, or fails to settle any damage claim in connection therewith within sixty (60) days after written demand from Assignor (unless Assignee is actively resisting such claim in good faith), then, in either case, Assignor may do so and Assignee shall reimburse Assignor for all expenses so incurred.

This Assignment is made and accepted without any representations and warranties, express, implied or statutory. Specifically, Assignors make no warranty or representation, express or implied, with respect to the accuracy, completeness, or materiality of any information, records, and data now, heretofore, or hereafter made available to Assignee in connection with said leases or this Assignment (including, without limitation, any description of the leases, quality or quantity of potential or existing hydrocarbon reserves, if any, production rates, drilling opportunities or locations, decline rates, potential for production of hydrocarbon, from said leases, or any other information and data contained in any other material furnished Assignee by Assignor or by Assignor's agents or representatives). Any and all such data, information and material furnished by Assignor is provided as a convenience only and any reliance on or use of same is at Assignee's sole risk.

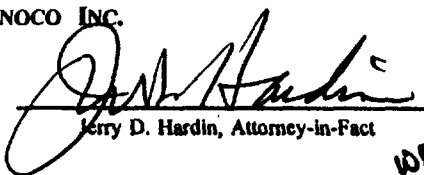
THIS ASSIGNMENT, INCLUDING ALL ITS EXHIBITS, SHALL BE INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE IN WHICH THE SAID LEASES ARE LOCATED WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. IF TEXAS LAW IS APPLICABLE, THEN TO THE EXTENT PERMITTED BY LAW, THE PARTIES HEREBY WAIVE THE PROVISIONS OF THE TEXAS DECEPTIVE TRADE PRACTICES ACT IF IT IS OTHERWISE APPLICABLE, EXCEPT SECTION 17.555 THEREOF WHICH IS NOT WAIVED. This Assignment, including all exhibits thereto, constitutes the entire understanding between the parties with respect to the subject matter hereof, and it replaces and supersedes any and all written or oral agreements, communications, or understandings between the parties concerning the same. This Assignment may not be amended except by an instrument in writing signed by the party charged with such amendment. This Assignment may be executed by the parties in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute one and the same instrument.

TO HAVE AND TO HOLD said assigned interest unto Assignee, Assignee's heirs, personal representatives, successors and assigns, subject to all of the express and implied covenants and obligations of said leases and this Assignment.

EXECUTED this 17th day of June, 1997, effective as of the 1st day of June, 1997.

CONOCO INC.

By:


Jerry D. Hardin, Attorney-in-Fact

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me on this 17th day of June, 1997, by Jerry D. Hardin, as Attorney-in-Fact of CONOCO INC., a Delaware corporation, on behalf of said corporation.

My commission expires:


Notary Public in and for the State of Texas

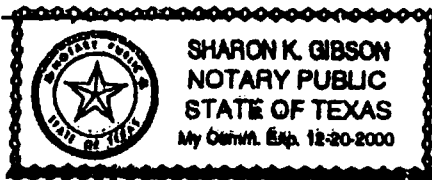


EXHIBIT "A"

Lease Schedule to Term Assignment, Dated June 1, 1997
Between CONOCO INC. and CHESAPEAKE OPERATING, INC., County of Lea, State of New Mexico

CONOCO LEASE NUMBER	LESSOR	LESSEE	DATE	DESCRIPTION	RECORDED	
					BOOK	PAGE
256085-001	Roy L. Anderson, et ux ^{3/6}	MTS Limited Partnership	9-15-83	Township 16 South, Range 36 East, NMMPM Section 1: SE 1/4 SE 1/4	366	934
256085-002	Kimberly Schaffer Harris, et vir	"	"	"	366	932
256085-003	Malcolm S. Anderson, et ux	"	"	"	366	928
256085-004	Brookie Lee Green, et vir	"	"	"	367	353
256085-005	Tamara Schaffer Maxie	"	"	"	366	924
256085-006	Shannon Schaffer Lester	"	"	"	367	147
256086-001	John Richard Anderson, et ux	"	"	"	366	930
256086-002	W. A. Anderson, Jr.	"	"	"	366	926

EXHIBIT "B"

TO TERM ASSIGNMENT DATED JUNE 1, 1997
BETWEEN CONOCO INC. AND CHESAPEAKE OPERATING, INC.

Well Information Requirements

Please furnish the following items to:

Conoco Inc.
10 Desta Drive, Suite 100W
Midland, Texas 79705-4500
(915) 686-5400

<u>Prior to Drilling</u>	<u>No. of Copies</u>
1. Geological Well Prognosis and Drilling Program	2
2. All Regulatory Reports	2
3. Survey Plat	2
4. 24-Hour Advance Notification of Spud Date	
5. Rig Phone and Mudlogging Trailer Numbers	1
 <u>During and After Drilling</u>	
1. Final 5" Mudlog, Report, Film Copy (1)	3
2. Wire Line Logs — Final Prints	3
3. Core Analysis Reports, Drill Stem Test Charts & Final Reports	2
4. Completion Report	1
5. Daily Production Reports	1
6. Monthly Production Reports	1