

COMMUNITIZATION AGREEMENT

Contract No. \_\_\_\_\_

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:

Township 17 South, Range 28 East, N.M.P.M.  
Section 4: Lots 3, 4, S/2 NW/4, SW/4 (W/2)

Eddy County, New Mexico

**CONSERVATION DIVISION**  
**CASE NUMBER** 12879  
**EXHIBIT** 2

containing 319.28 acres, more or less, and this agreement shall include only the Morrow formation underlying said lands and the 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 \_\_\_\_\_, 2000, 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.

DATE: \_\_\_\_\_

**CHI OPERATING, INC.**

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

DATE: \_\_\_\_\_

**CHI ENERGY, INC.**

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

DATE: \_\_\_\_\_

**SOUTHWESTERN ENERGY PRODUCTION  
COMPANY**

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

DATE: \_\_\_\_\_

**MURCHISON OIL & GAS, INC.**

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

DATE: \_\_\_\_\_

**WARREN RESOURCES, INC.**

By: \_\_\_\_\_

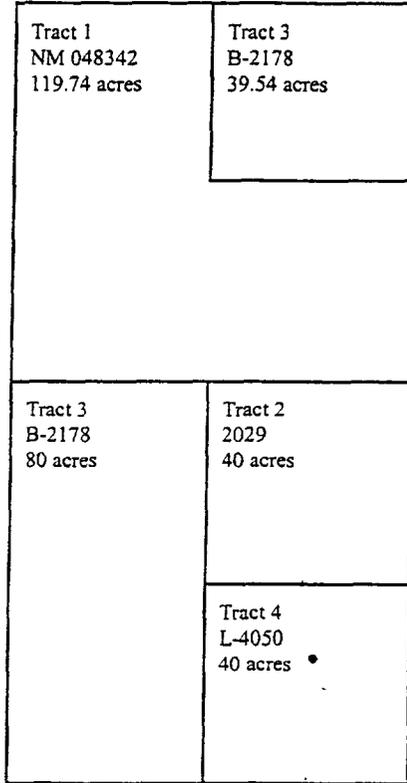
Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT "A"**

To Communitization Agreement dated \_\_\_\_\_, 2000

Plat of communitized area covering the W/2 of Section 4, T-17-S, R-28-E, N.M.P.M., Eddy County, New Mexico



Heavy Harry "4" State Com No. 1 Well  
(850 FSL, 1980 FWL)

EXHIBIT "B"

To Communitization Agreement dated \_\_\_\_\_, 2000, embracing the W/2 of Section 4, T-17-S, R-28-E, N.M.P.M., Eddy County, New Mexico

Operator of Communitized Area: Chi Operating, Inc.

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Serial No.:	NM 048342.
Lease Date:	December 1, 1998.
Lease Term:	Twenty (20) years.
Lessor:	United States of America.
Original Lessee:	Conoco Inc. - 50%
	Fina Oil and Chemical Company - 50%
Present Lessee:	Conoco Inc. - 50%
	Bellwether Exploration Company - 25%
	Pure Energy Group, Inc. - 25%
Description of Land Committed:	<u>Township 17 South, Range 28 East</u> Section 4: Lot 4, S/2 NW/4
Number of Acres:	119.74.
Royalty Rate:	12.5%.
Name and Percent ORI Owners:	Mary Carolyn Johnston - .625%
	Charles M. Fuchtman - .625%
	First Interstate Bank of Albuquerque, Trustee of the L. Jay Root Royalty Revocable Trust - .500%
	Edna Jo Scott - .500%
	Inez June Perry - .250%
	Samuel Warren Scott, Jr. - .125%
	Mary Jane Barron - .125%
	William C. Paris - 1/80 of .500%

Jane Collins – 1/80 of .500%  
Mary Louise Carlson – 1/80 of .500%  
Heirs or Devisees of Richard Collins – 1/80 of .500%  
Robert Collins – 1/80 of .500%  
Serena Hamilton – 1/80 of .500%  
Ruth McNeil – 1/80 of .500%  
Mary Ann Antone – 1/80 of .500%  
Pacific Christian College - 15% of .500%  
Kulpahar Kids Home – 15% of .500%  
First Christian Church, Long  
Beach, California – 15% of .500%  
John A. Paris – 45% of .500%  
Mary L. Hamilton – .500%  
Paul Slayton – .875%  
Mary Ellen Kersey – 1.60417%  
Petco Limited – 2.04167%  
Heirs or Devisees of Eugene E. Nearburg – .72916%  
Conoco Inc. – 1.75%  
Manix Royalty, Ltd. – .06250%  
Curtis A. Anderson and Edna I. Anderson,  
as joint tenants with rights of survivorship – 1.53125%  
Chi Royalty, Inc., fbo Chi Royalty Pool – .32813%  
Chi Energy, Inc. – 15.75%  
Southwestern Energy Production Company – 43.75%  
Murchison Oil & Gas, Inc. – 18.75%  
Warren Resources, Inc. – 5%  
Balk Oil Company – 1.5%  
Pocahontas Oil Co., Inc. – 1.5%  
Gary Green – 1.25%

Name and Percent WI Owners:

Bellwether Exploration Company – 6.25%

Pure Energy Group, Inc. – 6.25%

Tract No. 2

Lease Serial No.: 2029.

Lease Date: December 17, 1924.

Lease Term: Ten (10) years.

Lessor: State of New Mexico.

Original Lessee: W. F. Daugherty.

Present Lessee: Burlington Resources Oil & Gas Company – 50%

EOG Resources, Inc. – 50%

Description of Land Committed: Township 17 South, Range 28 East  
Section 4: NE/4 SW/4

Number of Acres: 40.

Royalty Rate: 12.5%.

Name and Percent ORI Owners: Devisees of F. G. Keyes and wife,  
Amy G. Keyes – 5%

William Ross Atkinson, Jr. – .78125%

Jesse Dale Atkinson – .78125%

Martha D. Taylor – .78125%

John S. Atkinson – .78125%

F. H. Operating Co. – 3.125%

National Bank of Commerce Trust  
and Savings Association and John C.  
Whitten, Trustees of the Blanche  
Widaman Trust dated September  
27, 1961, as amended – 3.125%

Myrtle Lee McLaughlin – .52083%

Heirs or Devisees of George  
B. Schneider – .52083%

William L. Terpening – .34722%

Calvin D. Terpening – .34722%

Heirs or Devisees of Russell  
Schneider – 69445%

Earl Schneider – .69445%

Curtis A. Anderson and Edna I. Anderson,  
as joint tenants with rights of survivorship – 1.08281%

Chi Royalty, Inc., fbo Chi Royalty Pool – .18047%

Name and Percent WI Owners:

Chi Energy, Inc. – 12.99375%

Southwestern Energy Production Company – 36.09375%

Murchison Oil & Gas, Inc. – 15.46875%

Warren Resources, Inc. – 4.125%

Balk Oil Company – 1.2375%

Pocahontas Oil Co., Inc. – 1.2375%

Gary Green – 1.03125%

Bellwether Exploration Company – 5.15625%

Pure Energy Group, Inc. – 5.15625%

Yates Petroleum Corporation – 12.25%

ABO Petroleum Corporation – 1.75%

MYCO Industries, Inc. – 1.75%

Yates Drilling Company – 1.75%

Tract No. 3

Lease Serial No.: B-2178.  
Lease Date: October 10, 1933.  
Lease Term: Five (5) years.  
Lessor: State of New Mexico.  
Original Lessee: Van Thompson.  
Present Lessee: Conoco Inc. and Fina Oil and Chemical Company.  
Description of Land Committed: Township 17 South, Range 28 East  
Section 4: Lot 3, W/2 SW/4  
Number of Acres: 119.54.

Royalty Rate: 12.5%.

Name and Percent ORI Owners: Conoco Inc. – 6.25000%  
 Manix Royalty, Ltd. – .62500%  
 Curtis A. Anderson and Edna I. Anderson,  
 as joint tenants with rights of survivorship – 1.53125%  
 Chi Royalty, Inc., fbo Chi Royalty Pool – .32813%

Name and Percent WI Owners: Chi Energy, Inc. – 15.75000%  
 Southwestern Energy Production Company – 43.75000%  
 Murchison Oil & Gas, Inc. – 18.75000%  
 Warren Resources, Inc. – 5.00000%  
 Balk Oil Company – 1.50000%  
 Pocahontas Oil Co., Inc. – 1.50000%  
 Gary Green – 1.25000%  
 Bellwether Exploration Company – 6.25000%  
 Pure Energy Group, Inc. – 6.25000%

Tract No. 4

Lease Serial No.: L-4050.

Lease Date: January 20, 1970.

Lease Term: Five (5) years.

Lessor: State of New Mexico.

Original Lessee: E. L. Latham, Jr.

Present Lessee: Pronghorn Management Corporation.

Description of Land Committed: Township 17 South, Range 28 East  
 Section 4: SE/4 SW/4

Number of Acres: 40.

Royalty Rate: 12.5%.

Name and Percent ORI Owners: WRE Ltd. Co – 7.5%  
 Manix Royalty, Ltd. – .3125%

Name and Percent WI Owners:

Curtis A. Anderson and Edna I. Anderson,  
as joint tenants with rights of survivorship – 1.75%

Chi Royalty, Inc., fbo Chi Royalty Pool – .4375%

Chi Energy, Inc. – 15.75%

Southwestern Energy Production Company – 43.75%

Murchison Oil & Gas, Inc. – 18.75%

Warren Resources, Inc. – 5%

Balk Oil Company – 1.5%

Pocahontas Oil Co., Inc. – 1.5%

Gary Green – 1.25%

Bellwether Exploration Company – 6.25%

Pure Energy Group, Inc. – 6.25%

Recapitulation

<u>Tract No.</u>	<u>No. of Acres Committed</u>	<u>Percentage of Interest in Communitized Area</u>
1	119.74	37.50313%
2	40	12.52819%
3	119.54	37.44049%
4	<u>40</u>	<u>12.52819%</u>
	319.28	100%