

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 portion 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 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 28 East,
Section 10: N/2

Eddy County, New Mexico,

CONSERVATION DIVISION
OIL COMM.
CASE NUMBER 12880
EXHIBIT 2

containing 320 acres, 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 four executed copies of a designation of successor operator shall be filed with the Authorized Officer.

4. Operator shall furnish the Secretary of the Interior, 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, as specified in the applicable oil and gas 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 each leasehold bears to the entire acreage interest committed to this agreement.

All proceeds, 8/8ths, attributed to unleased Federal, State or fee land included within the communitized area are to be placed in an interest earning escrow or trust account by the designated operator until the land is leased or ownership is established.

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 a 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 if such failure results from, compliance with any such laws, orders, rules or regulations.

10. The date of this agreement is _____, 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 by his duly authorized representative, and shall remain in force and effect as to the Morrow Formation for a period of two (2) years and for as long as communitized substances are, or can be, produced from the communitized area in paying quantities: Provided 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, 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 production 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 nonproduction. The 2-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.
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 land shall be subject to approval by the Secretary of the Interior, or his duly authorized representative.
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 fee and State mineral operations within the communitized area to the extent necessary to monitor production and measurement, and assure that no avoidable loss of hydrocarbons occurs in which the United States has an interest pursuant to applicable oil and gas regulations of the Department of the Interior relating to such production and measurement.
13. 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.
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.

EXHIBIT "A"

To Communitization Agreement dated _____, 2000

Plat of communitized area covering the N/2 of Section 10, T-17-S, R-28-E, N.M.P.M., Eddy County, New Mexico

| | | | |
|-------------------------------------|-------------------------------------|--------------------------------------|----------------------------------|
| Tract 3 LC 061465(b) 40 acres | Tract 2 LC 061465(a) 80 acres | Tract 2a LC 061465(a) 80 acres | Tract 4 NM 012898 80 acres |
| Tract 1 LC 028053(a) 40 acres | | | |

Hiawatha "10" Fed
Com No. 1 Well
(1,650 FNL, 660 FWL)

EXHIBIT "B"

To Communitization Agreement dated _____, 2000, embracing the N/2 of Section 10, 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.: | LC 028053(a). |
| Lease Date: | October 1, 1994. |
| Lease Term: | Twenty (20) years. |
| Lessor: | United States of America. |
| Original Lessee: | Warren Hanson. |
| Present Lessee: | Warren Hanson. |
| Description of Land Committed: | <u>Township 17 South, Range 28 East</u> Section 10: SW/4 NW/4 |
| Number of Acres: | 40. |
| Royalty Rate: | 12.5%. |
| Name and Percent ORI Owners: | Wade H. Hover – 6% EOG Resources, Inc. – 2.5% Mark A. Chapman – 2.5% The Wright Co. – 1% Boling Enterprises, Ltd. – 1/8 of 1% Mary L. Boling – 1/8 of 1% Joan Hudson Moore – 1/32 of 1% Jonel Susan Grasso – 1/32 of 1% Jane Ann Hudson Davis – 3/16 of 1% |

Warren Hanson, d/b/a Hanson Energy Co. – .9375%

Curtis A. Anderson and Edna I. Anderson,
as joint tenants with rights of survivorship – 1.50%

Chi Energy, Inc., f/b/o Chi Royalty Pool – .25%

Name and Percent WI Owners: Chi Energy, Inc. – 19.32143%

Southwestern Energy Production Company – 50%

Murchison Oil & Gas, Inc. – 21.42857%

Warren Resources, Inc. – 5%

Balk Oil Company – 1.5%

Pocahontas Oil Co., Inc. – 1.5%

Gary Green – 1.25%

Tract Nos. 2 and 2a

Lease Serial No.: LC 061465(a).

Lease Date: October 1, 1994.

Lease Term: Twenty (20) years.

Lessor: United States of America.

Original Lessee: Enron Oil & Gas Company - 50%
Meridian Oil Production Inc. - 50%

Present Lessee: Burlington Resources Oil & Gas Company – 50%
EOG Resources, Inc. – 50%

Description of Land Committed: Township 17 South, Range 28 East
Section 10: E/2 NW/4 - Tract 2
W/2 NE/4 - Tract 2a

Number of Acres: 80 - Tract 2.
80 - Tract 2a.

Royalty Rate: 12.5%.

Name and Percent ORI Owners: Tract 2:
Devon Energy Production Company, L.P. – 27.34375% of 2.75%

Bright Hawk/Burkard Venture – 9.02344% of 2.75%

Ayco Energy, L.L.C. – 7.38281% of 2.75%

June Johnson Cooper – 6.25% of 2.75%

EOG Resources, Inc. – 7.5% of 12.5%

Hunt Oil Company - 25% of 12.5%

James McLean - 3.125%

Curtis A. Anderson and Edna I. Anderson,
as joint tenants with rights of survivorship – 1.4875%

Chi Energy, Inc., f/b/o Chi Royalty Pool – .33125%

Tract 2a:

Devon Energy Production Company, L.P. – 27.34375% of 2.75%

Bright Hawk/Burkard Venture – 9.02344% of 2.75%

Ayco Energy, L.L.C. – 7.38281% of 2.75%

June Johnson Cooper – 6.25% of 2.75%

EOG Resources, Inc. – 25% of 12.5%

Hunt Oil Company - 25% of 12.5%

James McLean - 3.125%

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

Chi Energy, Inc., f/b/o Chi Royalty Pool – .375%

Name and Percent WI Owners:

Tract 2:

Chi Energy, Inc. – 15.94018%

Southwestern Energy Production Company – 41.25%

Murchison Oil & Gas, Inc. – 17.67857%

Warren Resources, Inc. – 4.125%

Balk Oil Company – 1.2375%

Pocahontas Oil Co., Inc. – 1.2375%
Gary Green – 1.03125%
Yates Petroleum Corporation – 12.25%
ABO Petroleum Corporation – 1.75%
MYCO Industries, Inc. – 1.75%
Yates Drilling Company – 1.75%

Tract 2a.

Chi Energy, Inc. – 19.32143%
Southwestern Energy Production Company – 50%
Murchison Oil & Gas, Inc. – 21.42857%
Warren Resources, Inc. – 5%
Balk Oil Company – 1.5%
Pocahontas Oil Co., Inc. – 1.5%
Gary Green – 1.25%

Tract No. 3

Lease Serial No.: LC 061465(b).
Lease Date: March 1, 1996.
Lease Term: Twenty (20) years.
Lessor: United States of America.
Original Lessee: Enron Oil & Gas Company - 50%.
Meridian Oil Inc. - 50%.
Present Lessee: Burlington Resources Oil & Gas Company – 50%
EOG Resources, Inc. – 50%
Description of Land Committed: Township 17 South, Range 28 East
Section 10: NW/4 NW/4
Number of Acres: 40.

Royalty Rate: 12.5%.

Name and Percent ORI Owners: Devon Energy Production Company, L.P. – 27.34375% of 9%
Bright Hawk/Burkard Venture – 9.02344% of 9%
Ayco Energy, L.L.C. – 7.38281% of 9%
June Johnson Cooper – 6.25% of 9%
EOG Resources, Inc. – 7.5% of 12.5%
Hunt Oil Company - 25% of 12.5%
Curtis A. Anderson and Edna I. Anderson,
as joint tenants with rights of survivorship – 1.4875%
Chi Energy, Inc., f/b/o Chi Royalty Pool – .33125%

Name and Percent WI Owners: Chi Energy, Inc. – 15.94018%
Southwestern Energy Production Company – 41.25%
Murchison Oil & Gas, Inc. – 17.67857%
Warren Resources, Inc. – 4.125%
Balk Oil Company – 1.2375%
Pocahontas Oil Co., Inc. – 1.2375%
Gary Green – 1.03125%
Yates Petroleum Corporation – 12.25%
ABO Petroleum Corporation – 1.75%
MYCO Industries, Inc. – 1.75%
Yates Drilling Company – 1.75%

Tract No. 4

Lease Serial No.: NM 012898.

Lease Date: September 1, 1953.

Lease Term: Five (5) years.

Lessor: United States of America.

Original Lessee: John M. Kelly.

Present Lessee: Burlington Resources Oil & Gas Company – 70%
EOG Resources, Inc. – 30%

Description of Land Committed: Township 17 South, Range 28 East
Section 10: E/2 NE/4

Number of Acres: 80.

Royalty Rate: Step Scale (currently 12.5%).

Name and Percent ORI Owners: Elk Oil Company - 5%

Devon Energy Production Company, L.P. – 27.34375% of 4%

Bright Hawk/Burkard Venture – 9.02344% of 4%

Ayco Energy, L.L.C. – 7.38281% of 4%

June Johnson Cooper – 6.25% of 4%

EOG Resources, Inc. – 25% of 7.5%

Hunt Oil Company - 25% of 7.5%

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

Chi Energy, Inc., f/b/o Chi Royalty Pool – .375%

Name and Percent WI Owners: Chi Energy, Inc. – 19.32143%

Southwestern Energy Production Company – 50%

Murchison Oil & Gas, Inc. – 21.42857%

Warren Resources, Inc. – 5%

Balk Oil Company – 1.5%

Pocahontas Oil Co., Inc. – 1.5%

Gary Green – 1.25%

Recapitulation

| <u>Tract No.</u> | <u>No. of Acres Committed</u> | <u>Percentage of Interest in Communitized Area</u> |
|----------------------|-----------------------------------|--|
| 1 | 40 | 12.5% |
| 2 | 80 | 25% |
| 2a | 80 | 25% |
| 3 | 40 | 12.5% |
| 4 | <u>80</u> | <u>25%</u> |
| | 320 | 100% |