

Determination - Approval - Certification

Pursuant to the authority vested in the Secretary of the Interior under Section 17(j) of the Mineral Leasing Act of 1920, as amended (74 Stat. 784; 30 U.S.C. 226(j)), and delegated to the authorized officer, of the Bureau of Land Management, I do hereby:

- A. Determine that the Federal lease or leases as to the lands committed to the attached agreement 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 that consummation and approval of the agreement will be in the public interest. Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject leases which are committed hereto.

- B. Approve the attached Communitization Agreement covering the S/2 Section 35, Township 31 North, Range 4 West, N.M.P.M., Rio Arriba County, New Mexico, as to natural gas and associated liquid hydrocarbons producible from the Fruitland Coal formation. This approval will become invalid should the public interest requirements under section 3105.2-3(e) are not met.

- C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of the agreement.

- D. Approval of this agreement does not warrant or certify that the applicant and other working interest owners thereof hold legal or equitable title to the leases which are committed hereto.

Approved: _____

For District Manager
Bureau of Land Management

Effective: _____

Contract No: Com. Agr. _____

Chicosa Canyon #1

Examiner _____
Case No. <u>9974</u>
EXHIBIT NO. <u>2</u>

COMMUNITIZATION AGREEMENT

Chicosa Canyon #1

Contract No. _____

THIS AGREEMENT, entered into as of the 1st day of October, 1989 by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto."

W I T N E S S E T H:

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 31 North, Range 4 West, N.M.P.M.
Section 35: S/2
Rio Arriba County, New Mexico

containing 316.27 acres, more or less, and this agreement shall include only the Fruitland Coal Formation underlying said lands and the Natural 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, in Exhibits A and 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 CA 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 non-communitized 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 if such failure results from, compliance with any such laws, orders, rules or regulations.
10. The date of this agreement is October 1, 1989, 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 his duly authorized representative, and shall remain in force and effect 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 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 interests 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.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

OPERATOR

SOUTHLAND ROYATLY COMPANY

Date: _____

By  _____
Kent Beers
Attorney in Fact 

OWNERS OF RECORD TITLE AND WORKING INTERESTS

THOROFARE RESOURCES

Date: _____

By _____

KATHLEEN CONE

Date: _____

By _____

DOUGLAS L. CONE

Date: _____

By _____

CLIFFORD CONE

Date: _____

By _____

TOM R. CONE

Date: _____

By _____

KENNETH G. CONE

Date: _____

By _____

Chicosa Canyon #1

OWNERS OF RECORD TITLE AND WORKING INTERESTS

THOROFARE RESOURCES

Date: 11/1/89

By Tom Shanor

KATHLEEN CONE

Date: _____

By _____

DOUGLAS L. CONE

Date: _____

By _____

CLIFFORD CONE

Date: _____

By _____

TOM R. CONE

Date: _____

By _____

KENNETH G. CONE

Date: _____

By _____

Chicosa Canyon #1

OWNERS OF RECORD TITLE AND WORKING INTERESTS

THOROFARE RESOURCES

Date: _____

By _____

KATHLEEN CONE

Date: _____

By _____

DOUGLAS L. CONE

Date: 12 April 190

By Douglas L. Cone

CLIFFORD CONE

Date: _____

By _____

TOM R. CONE

Date: _____

By _____

KENNETH G. CONE

Date: _____

By _____

Chicosa Canyon #1

OWNERS OF RECORD TITLE AND WORKING INTERESTS

THOROFARE RESOURCES

Date: _____

By _____

KATHLEEN CONE

Date: _____

By _____

DOUGLAS L. CONE

Date: _____

By _____

CLIFFORD CONE

Date: 12-26-89

By Tom R. Cone

TOM R. CONE

Date: _____

By _____

KENNETH G. CONE

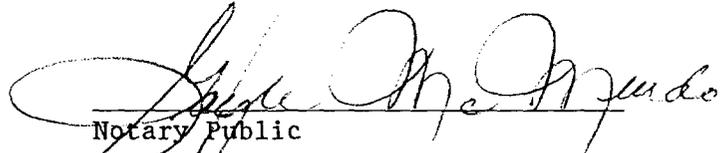
Date: _____

By _____

Chicosa Canyon #1

STATE OF NEW MEXICO)
) ss.
COUNTY OF SAN JUAN)

The foregoing instrument was acknowledged before me this 3rd day of October, 1989, by Kent Beers, Attorney-in-Fact of SOUTHLAND ROYALTY COMPANY, a Delaware corporation, on behalf of the corporation.


Notary Public

My Commission Expires:

May 30, 1993

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1989 by _____, _____, of THOROFARE RESOURCES, a _____ corporation, for and on behalf of said corporation.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 1989 by KATHLEEN CONE.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by DOUGLAS L. CONE.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by CLIFFORD CONE.

Notary Public

My Commission Expires:

STATE OF Missouri)
) ss.
COUNTY OF McDONALD)

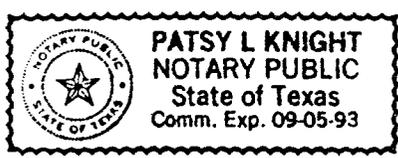
The foregoing instrument was acknowledged before me this 26th day
of DECEMBER, 1989 by TOM R. CONE.

Joe Ray
Notary Public Joe Ray
Notary Public
State of Missouri
McDonald County
My Commission Expires 3-10-92

My Commission Expires:

3-10-92

STATE OF Texas)
COUNTY OF Sublack) ss.



The foregoing instrument was acknowledged before me this 12th day
of April, 1989⁹⁰ by DOUGLAS L. CONE.

Patsy L Knight
Notary Public

My Commission Expires:
9-5-93

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by CLIFFORD CONE.

Notary Public

My Commission Expires:

STATE OF)
COUNTY OF) ss.

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by TOM R. CONE.

Notary Public

My Commission Expires:

STATE OF NEW MEXICO)
) ss.
COUNTY OF SAN JUAN)

The foregoing instrument was acknowledged before me this 3rd day of October, 1989, by Kent Beers, Attorney-in-Fact of SOUTHLAND ROYALTY COMPANY, a Delaware corporation, on behalf of the corporation.

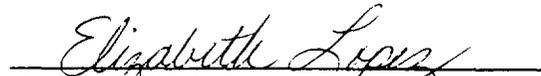

Notary Public

My Commission Expires:

May 30, 1993

STATE OF Colorado)
) ss.
COUNTY OF Denver)

The foregoing instrument was acknowledged before me this 1 day of November, 1989 by Tom Shaul, of THOROFARE RESOURCES, a Wyoming corporation, for and on behalf of said corporation.


Notary Public

My Commission Expires:

My Commission Expires March 10, 1993.

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ___ day of _____, 1989 by KATHLEEN CONE.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by DOUGLAS L. CONE.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by CLIFFORD CONE.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by TOM R. CONE.

Notary Public

My Commission Expires:

STATE OF)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day
of _____, 1989 by KENNETH G. CONE.

Notary Public

My Commission Expires:

EXHIBIT "A"

Plat of Communitized Area covering S/2 Section 35, T31N, R4W, N.M.P.M.

Rio Arriba County, New Mexico

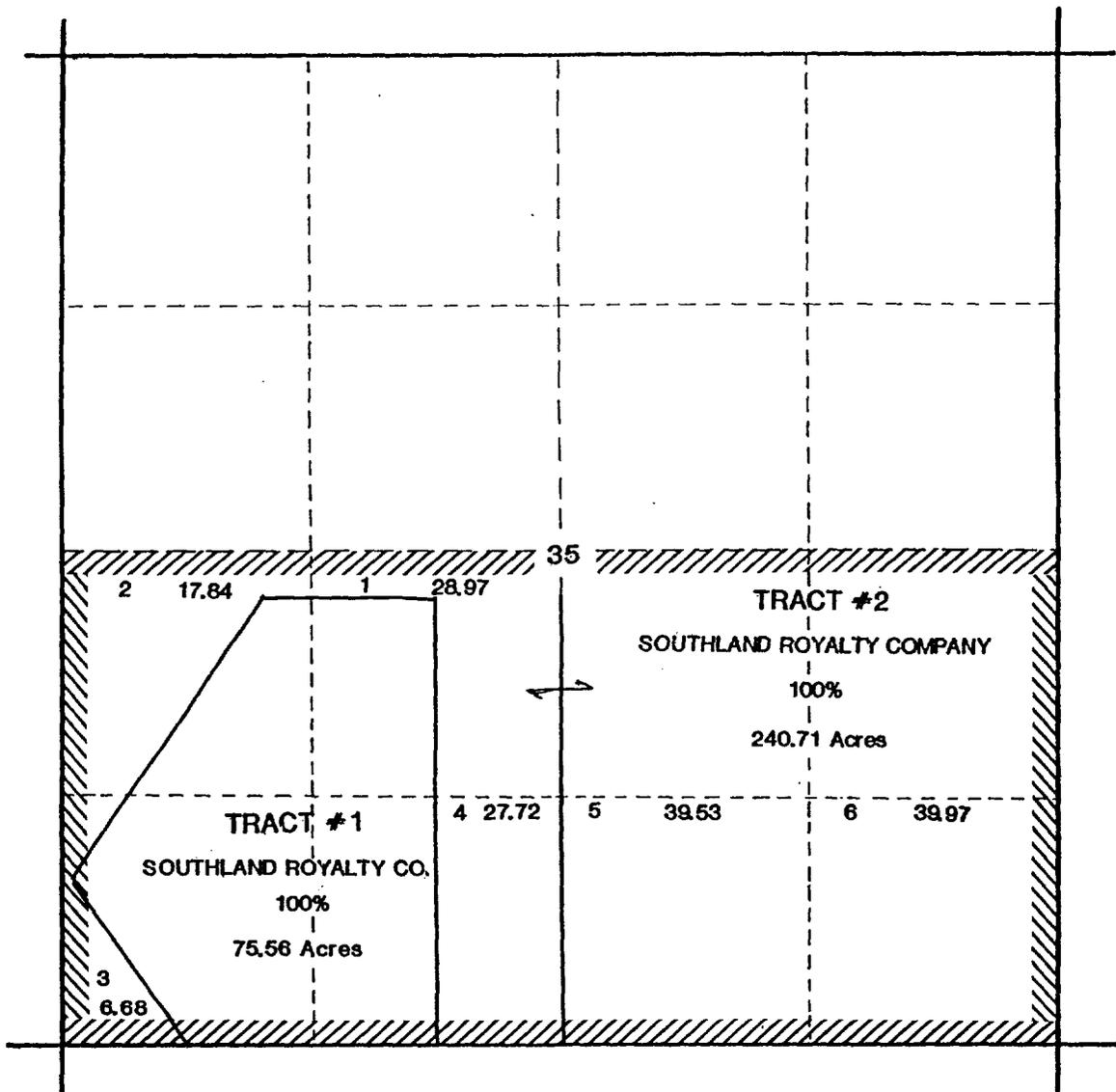


EXHIBIT "B"

Made a part of that certain Communitization Agreement dated October 1, 1989 embracing the following described land in Rio Arriba County, New Mexico.

TOWNSHIP 31 NORTH, RANGE 4 WEST, N.M.P.M.
Section 35: S/2

Operator of Communitized Area: Southland Royalty Company

Well Name: Chicosa Canyon #1

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lease Committed by: Southland Royalty Company

Lease Date: August 22, 1980

Lease Term: 5 years

Lessor: Cecelia W. Simms, et vir

Recording Data: Book 90, Page 847 of the Official
Records, Rio Arriba County, N.M.

Present Lessee: Southland Royalty Company

Description of Land Committed: Township 31 North, Range 4 West, N.M.P.M.
Section 35: HES Survey #290
Number of Acres: 75.56,
More or less

Pooling Provision: Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this lease, or any portion thereof, or formations thereunder, as to oil and gas, or either of them, either before or after production, with any other land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop or operate said premises, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten per cent (10%) of forty (40) acres, for oil, and not exceed three hundred and twenty (320)

acres, plus an acreage tolerance of ten per cent (10%) of three hundred and twenty (320) acres, for gas, except that large units may be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof, or formations thereunder, into other units. Lessee shall execute in writing and place of record an instrument or instruments identifying and describing the pooled acreage. Production, drilling or reworking operations anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking operations under this lease. In lieu of the royalties (excepting shut-in gas royalties) elsewhere therein specified, Lessor shall receive from a unit so formed only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest herein bears to the total acreage so pooled in the particular unit involved. In the absence of production Lessee may terminate any unitized area by filing of record notice of termination unless the instrument or instruments identifying and describing the unitized area contain provisions for termination upon certain contingencies.

Tract No. 2

Lease Committed by: Southland Royalty Company, et al
Lessors: United States of America
Original Lessee: Kathleen Cone
Lessee of Record: Thorofare Resources, Kathleen Cone,
Douglas L. Cone, Clifford Cone,
Tom R. Cone, and Kenneth G. Cone

Serial Number of Lease: USA-NM-17775
Lease Date: March 1, 1973

Description of Lands Committed:

Township 31 North, Range 4 West,
N.M.P.M.
Section 35: Lot 1, 2, 3, 4, 5, 6,
N/2 SE/4

Pooling Provision:

N/A

RECAPITULATION

<u>Tract No.</u>	<u>Number of Acres Committed</u>	<u>Percentage of Interest in Communitized Area</u>
1	75.56 (Fee Lands)	23.890479%
2	<u>240.71</u> (Federal Lands)	<u>76.109021%</u>
	316.27	100.000000%