

**BEFORE THE NEW MEXICO OIL
CONSERVATION COMMISSION**

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**ARMSTRONG ENERGY CORPORATION
CASE NO. 14411**

**HEARING DATE:
NOVEMBER 4, 2010**

EXHIBITS

Book 494 Page 734 Miscellaneous Records
Filed April 11, 1988

MISC

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25312

ASSIGNMENT OF OPERATING RIGHTS AND BILL OF SALE

For a valuable cash consideration received, and in consideration of the covenants and agreements of Buyer herein contained, and upon and subject to the exceptions, reservations, conditions and other provisions hereinafter set forth, MOBIL PRODUCING TEXAS & NEW MEXICO INC. (hereinafter called "Seller"), P. O. Box 633, Midland, Texas 79702, hereby sells, transfers, assigns and delivers, effective as of April 1, 1988, at 7:00 a.m. (the "Effective Time"), to ARMSTRONG ENERGY CORPORATION hereinafter called "Buyer"), whose address is P.O. Box 1973, Roswell, New Mexico 88201, all of Seller's right, title and interest in and to the following Oil and Gas Lease, operating rights, contractual rights, and other interests (if any) hereinafter described (the "Real Property"), INsofar AND ONLY INsofar, however, as the Real Property covers and includes the lands and depths hereinafter described (said lands, as to such depths, being hereinafter called the "Assigned Premises"), together with the contract and other rights appurtenant thereto or utilized in connection therewith, and the wells, equipment, materials and other personal property located on the Assigned Premises (the "Equipment"):

SONM-205 - Oil and Gas Lease NM-086 dated October 1, 1951, by and between The United States of America, as Lessor, and R. E. Jensen, as Lessee, covering all of Section 25, T-19-S, R-34-E, N.M.P.M., Lea County, New Mexico, containing an aggregate 640.0 acres, more or less, limited to those depths from the surface of the ground to the base of the Morrow Formation, the base being more particularly described at a depth of 13,500 feet that occurs in the West Pearl State #1 Well, located 660 feet FNL and 560 feet FEL of Section 2, T-20-S, R-34-E, SAVE AND EXCEPT those depths from the surface to a depth of 5,250 feet in the SW/4, S/2 NW/4, NW/4 NW/4, SW/4 NE/4, and the NE/4 SE/4 of said Section 25.

All of Seller's right, title and interest in and to the Real Property as to the Assigned Premises, and in and to the Equipment are hereinafter together called the "Interests". The term "affiliates", as used herein, shall include (without limitation) the direct and indirect parent and subsidiary companies of a party and any other companies directly or indirectly owned or controlled by such parent or subsidiary company.

THIS ASSIGNMENT OF OPERATING RIGHTS AND BILL OF SALE IS EXECUTED WITHOUT ANY WARRANTY OF TITLE, EITHER EXPRESS OR IMPLIED, WITHOUT ANY EXPRESS OR IMPLIED WARRANTY OR REPRESENTATION AS TO THE MERCHANTABILITY OF ANY OF THE

BEFORE THE OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case No. 14411 De Novo Exhibit No. 1
Submitted by:
ARMSTRONG ENERGY CORPORATION
Hearing Date: November 4, 2010

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EQUIPMENT OR ITS FITNESS FOR ANY PURPOSE, AND WITHOUT ANY OTHER EXPRESS OR IMPLIED WARRANTY OR REPRESENTATION WHATSOEVER. IT IS UNDERSTOOD AND AGREED THAT BUYER HAS INSPECTED THE PROPERTY AND PREMISES FOR ALL PURPOSES, INCLUDING WITHOUT LIMITATION FOR THE PURPOSE OF DETECTING THE PRESENCE OF NATURALLY OCCURRING RADIOACTIVE MATERIAL (HEREINAFTER REFERRED TO AS "NORM") AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION, BOTH SURFACE AND SUBSURFACE, AND THAT BUYER ACCEPTS ALL OF THE SAME IN THEIR "AS IS, WHERE IS" CONDITION. SELLER DISCLAIMS ALL LIABILITY ARISING IN CONNECTION WITH THE PRESENCE OF NORM ON THE PROPERTY AND IF TESTS HAVE BEEN CONDUCTED BY SELLER FOR THE PRESENCE OF NORM, SELLER DISCLAIMS ANY WARRANTY RESPECTING THE ACCURACY OF SUCH TESTS FOR THE PRESENCE OF NORM ON THE PROPERTY OR THE RESULTS OF THOSE TESTS AND DISCLAIMS ANY LIABILITY IN CONNECTION WITH THE TESTS OR RESULTS. IN ADDITION, SELLER MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF ANY DATA, INFORMATION OR MATERIALS HERETOFORE OR HEREAFTER FURNISHED BUYER IN CONNECTION WITH THE INTERESTS, OR AS TO THE QUALITY OR QUANTITY OF HYDROCARBON RESERVES (IF ANY) ATTRIBUTABLE TO THE INTERESTS OR THE ABILITY OF THE INTERESTS TO PRODUCE HYDROCARBONS. ANY AND ALL SUCH DATA, INFORMATION AND OTHER MATERIALS FURNISHED BY SELLER IS PROVIDED BUYER AS A CONVENIENCE AND ANY RELIANCE ON OR USE OF THE SAME SHALL BE AT BUYER'S SOLE RISK.

A. There is hereby excepted from this Assignment of Operating Rights and Bill of Sale and reserved to Seller, its affiliates, successors and assigns, the following:

1. All rights, interests, depths and formations (if any) not specifically transferred hereby, together with all express or implied rights, easements and appurtenances thereto; and
2. a. The continuing right and option at any time(s) to purchase all or any of (a) the oil and/or (b) other liquid hydrocarbons (including condensate, distillate and other liquids recovered from the well stream by normal lease-separation methods) produced and saved from the Assigned Premises. The price to be paid therefor shall be (i) Mobil Oil Corporation's posted price applicable thereto, gravity adjusted, for the particular crude type (with transportation charges deducted, where applicable) or (ii) where there is no such Mobil posting for the particular type crude, a mutually agreeable other company posted price.
- b. The preferential right and option to purchase the gas (the term "gas" to include natural gas, casinghead gas and all other gaseous substance and all constituents thereof in the well stream, whether produced from gas wells or oil wells) produced and saved from the Assigned Premises on the same terms (or on terms the monetary equivalent thereof) as those under which Buyer proposes to sell or

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otherwise dispose of same to another prospective purchaser that is ready, willing and able to so purchase the gas. No contract for the sale or other disposition of the gas, or any part thereof, shall ever be made by Buyer until Seller shall have first either exercised or waived in writing its above-described preferential right and option with respect to the gas. Buyer shall notify Seller in writing of each proposed sale or other disposition of the gas as much in advance as reasonably possible; and Seller shall have 30 days after receipt from Buyer of written notice of all terms of each bona fide offer to purchase the gas, or part thereof, in which to notify Buyer of Seller's election either to exercise or waive such preferential right and option. Seller shall have a continuing separate right and option with respect to each and every proposed sale or other disposition of the gas, or part thereof.

- c. If this Assignment of Operating Rights and Bill of Sale covers less than a full interest in the oil and gas in the Assigned Premises, then the share of production which Seller is entitled to purchase hereunder shall be proportionately reduced.

B. As used in this paragraph B. and the numbered subparagraphs hereunder, "claims" shall include claims, demands, causes of action, liabilities, damages, penalties and judgments of any kind or character and all costs and fees in connection therewith.

1. Buyer shall, (i) at the Effective Time assume, and be responsible for and comply with, all duties and obligations of Seller, express or implied, with respect to the interests, including, without limitation, those arising under or by virtue of any lease, contract, agreement, document, permit, applicable statute or rule, regulation or order of any governmental authority (specifically including, without limitation, any governmental request or requirement to plug, re-plug and/or abandon any well of whatsoever type, status or classification, or take any clean-up or other action with respect to the property or premises) and (ii) defend, indemnify and hold Seller harmless from any and all claims in connection therewith, except any such claims asserted against Seller prior to the Effective Time and expressly assumed by Seller in writing.
2. Buyer shall defend, indemnify and hold Seller harmless from any and all claims in favor of any person for personal injury, death or damage to property or to the environment, or for any other relief, arising directly or indirectly from, or incident to, the use, occupation, operation, maintenance or abandonment of any of the interests, or condition of the property or premises, whether latent or patent, including, without limitation, contamination of the property or premises with NORM, and whether arising from or contributed to by the negligence in any form of Seller, its agents, employees or contractors, and asserted against Buyer and/or Seller after the Effective Time, whether or not any such claims result from conditions, actions or inactions at or before the Effective Time, except for any claims, whether asserted before or after the Effective Time, in favor of any person for personal injury, death or property damage occurring with respect to the interests prior to the Effective Time and proximately caused by the gross negligence or willful misconduct of Seller, its agents, employees or contractors.

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3. Seller shall (i) be responsible for any and all claims arising out of the production or sale of hydrocarbons from the interests--or the proper accounting or payment to parties for their interests therein--insofar as such claims relate to periods of time prior to the Effective Time and (ii) defend, indemnify and hold Buyer harmless from any and all such claims. Buyer shall be responsible for all of said types of claims insofar as they relate to periods of time from and after the Effective Time and shall defend, indemnify and hold Seller harmless therefrom.
- C. Seller's oil and other liquid hydrocarbons in the tanks above the pipeline connection as of the Effective Time hereof shall remain the property of Seller. Buyer agrees to promptly notify all appropriate tax assessor-collectors of the rights and interests hereby transferred.
- D. This Assignment of Operating Rights and Bill of Sale is made expressly subject to the following:
1. Gas Contract S-7129 dated July 9, 1971, with Phillips Petroleum Company, as Purchaser.
 2. Gas Contract S-7159 dated May 20, 1982, with Warren Petroleum Company, as Purchaser.
 3. Gas Contract S-7136 dated April 26, 1983, with Phillips Petroleum Company, as Purchaser.
 4. The Conditions of Sale attached to Seller's Sales Book No. 13, dated January, 1988.
 5. Any and all other valid and existing contracts, easements and other instruments affecting the Assigned Premises, or any part thereof, together with any and all existing overriding royalties and other interests payable out of production from the Assigned Premises, or any part thereof, as shown of record.
- E. Seller does not warrant any gas market for gas that may be produced from the leasehold interest that is the subject of this Assignment. Further, Seller does not agree and shall not be obligated hereby to submit to any pipeline any offer of credits or agreement in lieu thereof under FERC Order No. 500, et seq., or successor regulations. Buyer hereby agrees and acknowledges that it does not by this Assignment or otherwise have or obtain any right to submit any offer of credits or to make any agreement in lieu thereof under FERC Order No. 500, et seq., or otherwise, for or on behalf of Seller, or in any way as a result of which credits might be applied against any of Seller's gas sales contracts. Buyer agrees that it will promptly upon the request of Seller submit to any gas pipeline company(s) from which Seller might seek transportation for its gas produced

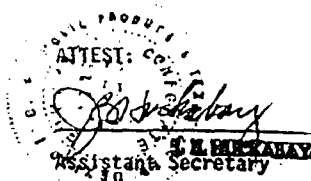
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from any of its remaining or subsequently acquired gas producing properties an effective offer of credits, or reach an agreement in lieu thereof with such pipeline(s), under FERC Order No. 500, et seq., or successor regulations, in form and substance satisfactory to the pipeline and binding upon any subsequent successors and assigns of Buyer, so that gas production from any of Seller's properties will be eligible for "open access" transportation by such pipeline. Buyer will submit a copy of such offer of credits or agreement in lieu thereof to Seller contemporaneously with submission to the pipeline. Buyer further agrees that all subsequent conveyances or assignments of the Interests, in whole or in part, will incorporate covenants and limitations identical in substance to those contained in this paragraph for Seller's continuing benefit, and will similarly bind Buyer's successors and assigns. Buyer's failure to observe any of the foregoing covenants and limitations shall constitute a material breach of this Assignment.

The provisions hereof shall bind and inure to the benefit of Buyer and Seller and their respective affiliates, heirs, devisees, legal representatives, successors and assigns and shall constitute covenants running with the land and Interests hereby affected.

EXECUTED this 31 day of March, 1988, but effective as of the above-stated Effective Time.

**SELLER:**

MOBIL PRODUCING TEXAS & NEW MEXICO INC.

By: J. K. Trigger
J. K. TRIGGER
Attorney-in-Fact

and

By: G. P. Dalton
G. P. DALTON
Attorney-in-Fact

BUYER:

ARMSTRONG ENERGY CORPORATION

By: [Signature]

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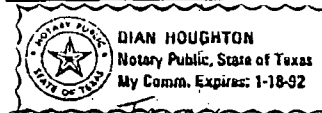
STATE OF TEXAS
COUNTY OF MIDLAND

This instrument was acknowledged before me on this 31 day of March, 1988, by J. K. Trigger and G. R. Dalton as Attorneys-in-Fact of MOBIL PRODUCING TEXAS & NEW MEXICO INC., a Delaware corporation, on behalf of said corporation.

My Commission Expires:

Dian Houghton
Notary Public, State of Texas

Notary's Typed/Printed Name:

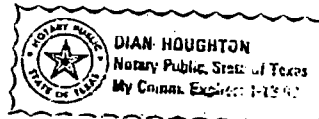
STATE OF Texas
COUNTY OF Midland

This instrument was acknowledged before me on March 31 1988 by Robert B. Armstrong on behalf of ARMSTRONG ENERGY CORPORATION, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

Dian Houghton
Notary Public, State of Texas

Notary's Typed/Printed Name:

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

APR 11 1988

at 11:38 o'clock A.
and recorded in Book 494
Page 734
Shirley Hooper, County Clerk
by Paul Hunt, Deputy

