

R-708-A

ASSIGNMENT OF OPERATING AGREEMENT
UNITED STATES OIL AND GAS LEASE

WHEREAS, on October 1, 1951, DELHI OIL CORPORATION made and entered into a certain Operating Agreement with Delhi Oil Corp. et al pertaining to that certain United States Oil and Gas Lease bearing serial number Santa Fe 000000 in so far as the same covers the following described land located in San Juan County, New Mexico, to-wit:

Tract No. 1, Block 1, T. 1 N., R. 1 E., S. 10 S.

Section 4: All;
Section 14: 1/2 NW/4, NW/4 NE/4, NE/4 NW/4, NE/4 NE/4;
Section 15: 1/2 NW/4, NW/4;
Section 16: 1/2, NE/4, 1/2 NW/4

Tract No. 2, Block 2, T. 1 N., R. 1 E., S. 10 S.

Section 20: All;
Section 21: 1/4

and containing 2001.04 acres, more or less;

and

WHEREAS, the said Delhi Oil Corporation is the present owner and holder of all the operating rights granted to it under the said Operating Agreement;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the full receipt and sufficiency of which is hereby acknowledged, the said Delhi Oil Corporation (hereinafter called "Assignor") does hereby assign and transfer unto EL PASO NATURAL GAS COMPANY (hereinafter called "Assignee"), a Delaware corporation, whose address is Bassett Tower, El Paso, Texas, all its right, title and interest in, to and under (1) the said Operating Agreement, (2) any and all gas wells which may be situated on said land, and (3) any and all personal property now situated thereon or used or obtained in connection therewith, subject, however, to the terms, provisions and conditions hereof:

1. In said lease, assignments thereof and other instruments and documents pertaining thereto there are excepted

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and reserved to or assigned for the benefit of the various assignors and others certain royalties, overriding royalties and other rights and interests in, to and connected with oil, gas and other minerals produced from and under said lease, reference being here made to said lease, assignments, instruments and documents for a more particular description of the terms thereof. This Assignment is made expressly subject to all such royalties, overriding royalties and other rights and interests so excepted, reserved or assigned, as hereinafter set forth.

2. Assignor hereby excepts, reserves and retains unto itself, its successors and assigns the following:

A. An overriding royalty on Assignor's interest in all gas produced and saved from the said lease and the above described land as follows:

(1) $5\frac{1}{2}\%$ per mcf (1,000 cubic feet) on all such gas produced and saved during the first $3\text{-}1/3$ years after the date hereof.

(2) $6\frac{1}{2}\%$ per mcf on all such gas produced and saved during the next $3\text{-}1/3$ years thereafter.

(3) $7\frac{1}{2}\%$ per mcf on all such gas produced and saved during the next $3\text{-}1/3$ years thereafter.

(4) Not less than 8% per mcf on all such gas produced and saved during the next one year thereafter.

(5) Not less than 9% per mcf on all such gas produced and saved during the next one year thereafter.

(6) Not less than 10% per mcf on all such gas produced and saved thereafter.

B. The volumes of gas, upon which the overriding royalties described above shall be paid, shall be computed upon a pressure base of 15.025 pounds per square inch absolute and at a temperature base of 60 degrees Fahrenheit, and shall be otherwise computed in accordance with the specifications prescribed in Gas Measurement Committee Report No. 2, dated May 6, 1935, of the Natural Gas Department of the American Gas Association, including the appendix thereto and subsequent amendments and appendices from time to time made. Proper corrections shall

be made for deviation from Boyle's Law, the specific gravity and the flowing temperatures of the gas produced hereunder. Proper deduction shall be made from such volumes for gas used in development and operation of the said lands and for loss due to shrinkage by reason of extraction of hydrocarbons from such gas.

C. The overriding royalties specified in (4), (5) and (6) of A above shall in no event be less than the respective amounts stated therein but shall be arrived at as follows: approximately ninety (90) days prior to the end of the first ten (10) years following the date hereof the parties shall attempt to agree upon the amounts of such overriding royalties for the next five-year period. If the parties agree upon such overriding royalties, then such amounts shall be the overriding royalties to be received by Assignor hereunder for such period. If the parties cannot agree upon such amounts, then such amounts shall be determined by a board of arbitrators to be appointed as provided in the agreement between the parties dated January 18, 1952, hereinafter mentioned. The board of arbitrators, in determining the amounts of such overriding royalties, shall base their decision on the then value of such gas at the well head, considering only quality and pressure of gas, aggregate quantity of delivery and the then current field prices (of then newly negotiated contracts) of gas in other fields connected to or in the area of any of Assignee's pipe lines or gathering systems or of any pipe line system to which any of Assignee's pipe lines or gathering systems are then connected and such other directly related pertinent factors which said board shall deem proper to consider in order to fairly determine the amounts of such overriding royalties. The overriding royalties reserved by Assignor in A above shall be determined for each five-year period after the fifteenth year following the date hereof in like manner to that provided above for the five-year period next following the tenth year after the date hereof, but in no event shall the amount of such overriding royalties be less than 10¢ per mcf.

D. An overriding royalty in the amount of thirty-three and one-third per cent ($33\frac{1}{3}\%$) of Assignor's interest in all liquid hydrocarbons which may be recovered or extracted from gas produced from the said land. At Assignor's option, Assignee shall deliver to Assignor such overriding royalty in kind or shall pay to Assignor the fair market value thereof in cash. At all times prior to the completion of construction and commencement of operation by Assignee of a plant for extraction of such liquids, Assignee shall pay to Assignor in cash the estimated value of thirty-three and one-third per cent ($33\frac{1}{3}\%$) of all liquids produced with or contained in gas produced from the said land and applicable to Assignor's interest therein, regardless of whether such liquids are extracted from the gas.

E. All oil in, to and under the said land, together with the right of ingress and egress to and from the leased premises for the purpose of exploring for, producing and removing same and constructing and operating all facilities necessary or appropriate in connection therewith.

F. All gas and other hydrocarbon substances, in, to and under the said land in all formations below the Mesaverde formation, together with the right of ingress and egress to and from the leased premises for the purpose of exploring for, producing and removing same and constructing and operating all facilities necessary or appropriate in connection therewith.

3. The said overriding royalties reserved herein shall be suspended and Assignor shall have and retain in lieu thereof a working interest in the said land and lease during all periods when the average production per well per day therefrom, averaged on a monthly basis, is (a) as to oil, fifteen (15) barrels or less, and (b) as to gas, five hundred thousand (500,000) cubic feet or less. The limitations of this paragraph shall apply separately to any zone or portion of the said lease which may be segregated for computing government royalty.

4. The said overriding royalties reserved herein are more fully described in a certain Oil and Gas Lease Sale Agreement between Assignor and Assignee dated January 18, 1952, and recorded in the official records of the County Clerk of San Juan County, New Mexico, in Volume _____ at Page _____, reference to which Agreement and record thereof is here made for all purposes, and the terms and provisions of which Agreement are all incorporated herein by reference the same as though set forth verbatim herein.

5. Assignee, by its acceptance of this Assignment, warrants and agrees that it will comply with all terms, provisions and conditions of the Agreement dated January 18, 1952, mentioned hereinabove, and, subject to the terms thereof, that it will comply with all obligations of the Operator contained in the Operating Agreement hereby assigned, and that it hereby assumes and agrees to pay, as and when the same shall become due and payable, all outstanding royalty, overriding royalty, carried and other interests under the Operating Agreement hereby assigned applicable to all gas and other hydrocarbons produced and saved by Assignee. Assignee further agrees that it will not discriminate against any employee or applicant for employment because of race, creed, color or national origin, and that it will require that an identical provision be incorporated in all subcontracts.

6. This Assignment is subject also to the following interests previously reserved and retained in the said land and lease covering same:

(1) Overriding royalty of 2 1/2% as retained and reserved by C. M. Neal, et al.

(2) Overriding royalty of 12% of all gas and 20% of all oil, subject to suspension and conversion, as retained by Hodge Oil Company, fully described in the letter agreement with Hodge Oil Corporation dated March 3, 1950.

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7. Assignor covenants with and warrants to Assignee, its successors and assigns, that it will warrant and forever defend unto Assignee, its successors and assigns, the title to the rights hereby assigned and the interest of Assignor in all personal property situated on the land described above and used or obtained in connection therewith, against all persons whomsoever who may lawfully have or claim an interest therein by, through or under Assignor.

EXECUTED at Dallas, Texas, as of the 1st day of March, 1952.

DELHI OIL CORPORATION

By P. T. Bee
Vice President

ATTEST:

A. C. Martch
Secretary

* * * * *

El Paso Natural Gas Company, Assignee herein, hereby accepts this Assignment and agrees to be bound by the terms and provisions thereof, all as of March 1, 1952.

EL PASO NATURAL GAS COMPANY

By E. L. Perkins
President

ATTEST:

A. C. Martch
Asst. Secretary

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STATE OF TEXAS)
)ss.
COUNTY OF DALLAS)

On this 1st day of March, 1952, before me appeared P. T. Bee, to me personally known, who, being by me duly sworn, did say that he is the Vice President of DELHI OIL CORPORATION, a Delaware corporation, and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said P. T. Bee acknowledged said instrument to be the free act and deed of said corporation.

Erma Lou Odeneal
Notary Public in and for
Dallas County, Texas.

My commission expires:

June 1, 1953.

Erma Lou Odeneal