



**Chevron**

November 30, 1999

Continental State No. 1  
State 32-1 Well & State 32-1 -1 Well  
Stateline Field Battery  
Section 5: Lots 1 and 2  
T-24-S, R-38-E,  
Section 32: S/2SW/4 and N/2SE/4  
T-23-S, R-38-E,  
Lea county, New Mexico

New Mexico Oil Conservation Division  
1625 North French Drive  
Hobbs, New Mexico 88240

Attention: Buddy Hill

Dear Mr. Hill:

This letter is in reference to the Continental State No. 1 Well, State 32-1 and 32-1-1 Wells and more particularly, the Stateline Field Battery. Randal Papasan, Operations Supervisor for Chevron, has investigated the area and found that there was apparently one battery that serviced the two wells, these wells being the State 32-1 and 32-1-1. The Continental State No. 1 Well appears to be properly plugged and abandoned. Our files show this well was P&A'ed in 1989.

Chevron sold its interest in the captioned acreage to Ricky Smith and Mayo Marrs under an Assignment and Bill of Sale dated January 15, 1990. In addition to the leasehold interest, the sale included the State 32-1 and State 32-1-1 Wells, equipment associated with the wells and the Stateline Field Battery and flowlines.

Chevron has researched the chain of title and found that Smith and Marrs assigned their interest to Santa Fe Exploration Company in total by way of an Assignment and Bill of Sale dated August 29, 1991. Santa Fe assigned a portion of its leasehold interest to Cimarron Exploration Company under an Assignment and Conveyance of Oil and Gas Leases and Interests Therein, effective August 1, 1997. The Assignment to Cimarron conveyed all interest in personal property and equipment located on the lands that were assigned.

Copies of the Assignments have been enclosed for your reference. Please advise if you have any questions, comments or need additional information from Chevron.

You may contact me at (915) 687-7235 or Randal Papasan at (505) 394-1227.

Yours truly,

Denise K. Beckham, CPL/ESA  
Senior Landman

**Chevron U.S.A. Production Company**

P.O. Box 1150, Midland, TX 79702  
15 Smith Road, Midland, TX 79705  
Phone 915 687 7235  
Fax 915 687 7448  
E-Mail DKBE@Chevron.com

**Denise K. Beckham, CPL/ESA**

Senior Landman  
Permian Basin Land Division

## ASSIGNMENT AND BILL OF SALE

THIS AGREEMENT, entered into this 15<sup>th</sup> day of January, 1990, by and between Chevron U.S.A. Inc., a Pennsylvania corporation, whose mailing address is 1301 McKinney, Houston, Texas 77010 (hereinafter "Assignor") and Rickey Smith and Mayo Marrs whose mailing address is Box 863, Kermit, Texas 79745 (hereinafter "Assignee")

DOES WITNESS THAT:

In consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the performance by Assignee of the covenants, agreements, obligations and conditions hereinafter contained, to be kept and performed by Assignee, it is agreed between the parties as follows, to-wit:

1. Assignment. Assignor does hereby assign, transfer and quitclaim to Assignee, without warranty express or implied, all of Assignor's right, title and interest in the real property listed in Exhibit "A" hereto, and made a part hereof insofar and only insofar as limited therein (hereinafter referred to as the "Assigned Premises"), subject to all of the covenants and conditions hereof and the additional provisions contained in said Exhibit "A". Assignor also quitclaims to Assignee any easements, rights-of-way or other rights of ingress and egress appertaining to the Assigned Premises, excepting, reserving and retaining therefrom all other such rights unto Assignor with respect to real property not quitclaimed hereby.

2. Bill of Sale. Assignor does hereby quitclaim unto Assignee all of Assignor's right, title and interest in and to all oil wells, gas wells, salt water disposal wells, injection wells and other wells located on the Assigned Premises, (hereinafter referred to as the "Wells") and to the personal property or equipment described in Exhibit "A" attached hereto and made a part hereof (hereinafter referred to as the "Personal Property").

3. No Warranty or Representation by Assignor. This Assignment and Bill of Sale is made on an "AS IS, WHERE IS" basis and "WITH ALL FAULTS", and WITHOUT WARRANTIES WHATSOEVER WITH RESPECT TO ANY INTEREST HEREIN QUITCLAIMED, EITHER EXPRESSED OR IMPLIED, it being expressly agreed by Assignor and Assignee that ASSIGNOR MAKES NO WARRANTIES OR REPRESENTATION WITH RESPECT TO ORIGIN, QUANTITY, QUALITY, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, SAFETY OF EQUIPMENT, COMPLIANCE WITH GOVERNMENTAL REGULATIONS, TITLE TO PERSONAL PROPERTY, THE QUANTITY, VALUE OR EXISTENCE OF RESERVES OF OIL, GAS OR OTHER MINERALS PRODUCIBLE OR RECOVERABLE FROM THE ASSIGNED PREMISES, OR OF TITLE TO OR CONDITION OF THE ASSIGNED PREMISES AND RELATED FIXTURES AND IMPROVEMENTS. All descriptions set forth herein and all information heretofore or hereafter furnished Assignee by Assignor concerning the Assigned Premises, Wells and Personal Property, and the operation thereof, have been and shall be furnished solely for Assignee's convenience and have not constituted and shall not constitute a representation or warranty of any kind by Assignor, and any reliance thereupon by Assignee shall be at Assignee's sole risk and liability.

4. Reservations. All oil in tanks above the pipeline connections from the Wells to the tanks as of 7:00 A.M. on the effective date hereof is not to be part of this agreement, but shall remain the property of Assignor and shall be delivered to the pipeline company for the account of Assignor. All gas produced and the proceeds of gas produced prior to 7:00 A.M. on the effective date hereof shall likewise not be part of this agreement but shall remain the property of Assignor. This agreement further does not include any equipment or lines of the purchaser or purchasers of oil and gas from the Assigned Premises and does not include any tools, pulling machines, trucks or other equipment that may be located temporarily on the Assigned Premises, and Assignor shall have the right at any time to remove the same from the Assigned Premises.

Assignor shall invoice Assignee for Assignor's share of ending oil tank inventories, and Assignee shall pay such invoice within 30 days of receipt. Assignor shall value the ending oil inventory, and Assignee agrees to pay such invoices, at the value Assignor would have received if oil had been sold to Assignor's oil purchaser on the effective date of sale.

Assignor shall give Assignee reasonable notice of the final gauging of oil inventories, and Assignee shall have the option to jointly gauge such inventories. Assignee and Assignor shall acknowledge in writing the results of

final gauging. Regardless of whether Assignee participates in gauging, the results of Assignor's final gauging shall be binding upon Assignee.

5. Indemnity of Assignor. (a) In those instances where Assignee succeeds Assignor as operator of Wells in which Assignor's interest is hereby quitclaimed, Assignee agrees to operate and plug and abandon all such Wells in accordance with all applicable governmental laws, rules and regulations. In those instances where Assignee is to succeed Assignor as a working interest owner but not as operator of Wells in which Assignor's interest is hereby quitclaimed, Assignee agrees to assume any responsibility which Assignee as a working interest owner in such wells may have under applicable governmental laws, rules and regulations concerning plugging and abandonment of such Wells. In any instance where Assignee hereunder becomes responsible or liable for plugging and abandonment under this paragraph, Assignee agrees to release, protect, indemnify and hold Assignor harmless from any and all liabilities arising from Assignee's failure to plug and abandon such Wells. Any future assignment by Assignee of any interest acquired hereunder shall reference and describe Assignee's obligations to Assignor set forth herein.

(b) Assignee agrees to protect, indemnify and hold Assignor harmless from and against any and all liability, loss, damage, injury and claims, demands and causes of action therefor asserted or filed after the effective date hereof in any way arising from operations or activities related to the Assigned Premises, Wells and Personal Property and the contracts and agreements appertaining thereto based upon any theory of negligence, willful misconduct, liability without fault or other.

6. Liability of Assignee. Assignee shall observe and comply with all covenants, terms and provisions, express or implied, contained in the agreements, leases, easements and all other contracts appertaining to the Assigned Premises, Wells and Personal Property, whether or not such agreements, leases, easements and other contracts are correctly and completely listed and/or identified on the Exhibits hereto.

7. Effective Date. This agreement shall be effective as of 7:00 A.M. on the 1st day of January, 1990.

8. Purchase and Sale Agreement. Reference is made to that certain Purchase and Sale Agreement between Assignor as Seller and Assignee as Buyer dated December 12, 1989, which agreement shall govern as to responsibility between the parties for payment of taxes, assumption of Assignor's gas production account, whether over or under produced, and other matters stated therein but not stated in this agreement. However, should the terms and provisions of said Purchase and Sale Agreement conflict with the terms and provisions of this agreement, then the terms and conditions of this agreement shall prevail.

9. FERC Order 451. (a) Assignor hereby reserves to itself, its successors and assigns, the right to initiate "good faith negotiation procedures" pursuant to FERC Order 451 and 18 C.F.R. § 270.201 as to any eligible gas sales contracts covering all or any of the property assigned hereby. Assignee hereby waives any and all rights it might otherwise have to initiate such procedures as to such gas sales contracts, such right being reserved exclusively to Assignor.

(b) If Assignor initiates good faith negotiation procedures under Order 451, pursuant to the rights reserved in the foregoing paragraph, Assignee recognizes and agrees that any gas sales contracts assigned to Assignee pursuant to this agreement (whether expressly or impliedly assigned, and whether or not such assignment is accomplished by a separate instrument) may be affected and modified by the result of such procedures, it being understood, however, that Assignee shall have the right and obligation to negotiate directly with the gas purchaser with respect to the gas assigned hereby. It is understood that the results of such procedures may include, but not be limited to, a reduction in the contract price for Assignee's gas or a release of the gas purchaser's obligation to buy such gas.

10. Transportation Credits Under FERC Order 500. (a) Assignee agrees that it will not, without Assignor's prior written permission, which permission may be granted or withheld at the sole discretion of Assignor, tender or permit natural gas produced from the properties hereby assigned to be transported on any interstate pipeline under authority of 18 C.F.R. Part 284, unless such pipeline has first agreed in writing to waive any right it might otherwise have, pursuant to Federal Energy Regulatory Commission Order No. 500, Docket No. RM87-34-000, any further or final order or rule in such docket, or any subsequent rule or order having similar subject matter, to apply credits for such transportation against take-or-pay or take-and-pay obligations of such interstate pipeline under any contract with Assignor.

(b) It is understood that interstate pipelines may refuse to transport under 18 C.F.R. Part 284 gas produced from the properties hereby assigned unless Assignor agrees to offer take-or-pay or take-and-pay credit to such pipelines, and the parties hereby agree that Assignor may withhold such an offer at its sole discretion, even if the result is to completely bar Assignee's gas from the properties hereby assigned from open access transportation in such pipelines. Notwithstanding the foregoing, Assignor agrees to execute offers of credit necessary to render the assigned gas eligible for open access transportation if Assignor determines, in its sole discretion, that such gas is exempt from crediting pursuant to FERC rules and regulations or that Assignor can otherwise execute such offers of credit without risk of adverse economic consequences to Assignor. Any offers of credit executed by Assignor pursuant to this provision shall be limited in scope or term as Assignor deems necessary.

(c) If and to the extent that Assignor's rights and obligations under a gas purchase contract with an interstate pipeline (hereinafter the "Assigned Contract") are assigned to Assignee as part of this transaction, in whole or in part, and regardless of whether such contract rights and obligations may be assigned by implication herefrom or by a separate instrument, Assignee, by accepting this assignment, agrees to execute upon Assignor's request any and all offers of credit or other agreements that may be required under said Order 500 to accomplish or facilitate the transportation by such interstate pipeline of any gas owned by Assignor. Assignee understands and agrees that it may be required to grant such interstate pipeline credits against both past and current take-or-pay or take-and-pay obligations of the Assigned Contract, without any corresponding benefit to Assignee, in order to render Assignor's gas eligible for transportation on such pipeline.

(d) In the event Assignee violates any of the provisions of this Article, Assignee shall be liable to Assignor for all actual damages incurred by Assignor as a result thereof, which damages shall include, but not be limited to, the monetary value to Assignor of any take-or-pay or take-and-pay credits which Assignor is required to grant or is deemed to have granted as a result of Assignee's actions in violation of this Article. Upon prevailing in any action to enforce the provisions of this Article, Assignor shall also be entitled to recover its reasonable costs and attorney fees. The provisions of this Article shall run with the real property interests hereby assigned and shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

11. Judicial Review of FERC Orders 451 and 490. Assignee understands and agrees that Federal Energy Regulatory Commission (FERC) Order Nos. 451 and 490 are presently undergoing judicial review and that the final result of such review may impact (1) the market or purchaser to which gas produced from the properties hereby assigned may lawfully be sold, and/or (2) the maximum lawful price at which such gas may be sold. Assignor makes no representations or warranties as to the outcome of such judicial review and Assignee hereby accepts all risks that such judicial review may result in a remand, vacation, suspension, or modification of such FERC Orders in a manner detrimental to Assignee.

12. Notice of Possible FERC Jurisdiction and/or Contract Negotiation. Assignee is hereby advised that the property which is the subject of this instrument may have been subject to FERC jurisdiction and affected by contract renegotiation, settlement and/or abandonment procedures pursuant to FERC Orders 436, 451, 490, and/or 500. If necessary, Assignor reserves the exclusive right to renegotiate any settlement or contract affected or invalidated by court action.

13. Call on Oil. Assignor shall have the option, exercisable at any time and from time to time by 30 days written notice, to purchase or designate a purchaser of the crude oil attributable to the Assigned Premises. The price to be paid to Assignee shall be the current market price when produced which is paid for oil of like gravity and quality in the field where said Assigned Premises are located.

In the event Assignor fails to exercise the option to purchase provided above, then Assignee may sell and dispose of such production in such manner and upon such terms as it may elect only after Assignor has been so notified, in writing, and has elected not to purchase or designate a purchaser. In the exercise of this option to purchase, Assignor will not assume or retain any responsibility for division order maintenance.

14. Gas Sales Contracts. All of the natural gas produced from the Assigned Premises has heretofore been committed to the following Gas Purchase Contract: Gas Purchase Contract # SC-0161C, dated May 21, 1985, by and between Chevron U.S.A. Inc. (Seller) and Phillips 66 (Purchaser). Therefore, during the life of said identified contract and any successor or replacement contract thereto, none of the

natural gas produced from the Assigned Premises shall be committed to any other gas purchase contract, and, with respect to or bearing upon the interest acquired by Assignee in the Assigned Premises, Assignee hereby agrees to comply with and perform the duties and obligations imposed upon Assignor under said gas purchase contract. The foregoing restriction may be removed if Assignee obtains from the purchaser of said natural gas a release of that gas from the aforementioned identified contract, or successor, or replacement contracts thereto.

15. Successors and Assigns. The terms hereof shall inure to and be binding upon the respective heirs, successors and assigns of Assignor and Assignee.

16. State Leases. As to any lease in the attached Exhibit "A" hereto that affect an Oil and Gas Lease issued by the State of New Mexico this agreement shall be construed as a "Contract for Development" as permitted by § 19-10-13 NMSA (1978) and not as an assignment of record title to said lease.

EXECUTED the day and year first above written, but effective as of the date shown in Paragraph 7 hereof.

ASSIGNOR:

CHEVRON U.S.A. INC.

By:

W. Hyman  
Attorney-in-Fact

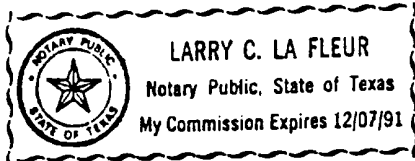
ASSIGNEE:

Rickey Smith  
RICKEY SMITH

Mayo Marrs  
MAYO MARRS

STATE OF TEXAS                    §  
COUNTY OF HARRIS               §

This instrument was acknowledged before me on January 15, 1990, by D. H. MESSER, Attorney-in-Fact for Chevron U.S.A. Inc., a Pennsylvania corporation, on behalf of said corporation.



Larry C. La Fleur  
Notary Public, State of Texas  
My Commission Expires 12/7/91

STATE OF TEXAS               §  
COUNTY OF WINKLER       §

BEFORE ME, the undersigned authority, on this day personally appeared Rickey Smith and Mayo Marrs, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 8th day of January, 19 90.

Brenda J. Allen  
Notary Public, State of Texas  
My Commission Expires 8-11-93  
Brenda J. Allen

## EXHIBIT "A"

Attached to and made a part of Assignment and Bill of Sale effective January 1, 1990, by and between Chevron U.S.A. Inc. (Assignor) and Rickey Smith and Mayo Marrs (Assignee)

### ASSIGNED PREMISES

All of Assignor's right, title and interest in and to the below listed oil and gas leases and the wells and personal property described on Exhibit "A-1" attached hereto and made a part hereof, all located in Lea County, New Mexico.

1. LN 200289: Oil and Gas lease dated September 23, 1933, bearing State Lease No. B-2657 from the State of New Mexico in favor of Continental Oil Company, INsofar and only INsofar as said lease covers Lots 1 and 2 of Section 5, T24S-R38E, containing 79.60 acres, more or less.
2. LN 200268: Oil and Gas lease dated April 21, 1930, bearing State Lease No. A-2614 from the State of New Mexico in favor of The Ohio Oil Company, INsofar AND ONLY INsofar as said lease covers the S/2 SW/4 and the N/2 SE/4 of Section 32, T23S-R38E, containing 160 acres, more or less.

### The Assigned Premises Are Subject to the following:

1. Unrecorded Water Disposal Agreement dated June 17, 1986, by and between Conoco Inc. as Operator and Chevron U.S.A. Inc. as non-operator.
2. Unrecorded Gas Purchase Contract #SG-0161C dated May 21, 1985, by and between Chevron U.S.A. Inc., or its successor, (Seller) and Phillips 66 (Purchaser).

### Wells and Personal Property

"Wells" or "Personal Property", as those terms are defined in the Assignment and Bill of Sale to which this Exhibit "A" is attached, are listed on Exhibit "A-1" attached hereto and made a part hereof.

EXHIBIT "A-1"

Attached to and made a part of Assignment and Bill of Sale effective January 1, 1990, by and between Chevron U.S.A. Inc. (Assignor) and Rickey Smith and Mayo Marrs (Assignee)

WELLS AND PERSONAL PROPERTY

State 32-1-1 TA'D

Surface Equipment:

12" x 11 3/4" 900 Series OCT Bradenhead Type C-22  
12" x 10" 900 Series OCT Inter.Spool Type C-22  
10" x 6" 900 Series OCT Tubing Head Type C-22  
2 7/8" x 6" 900 Series Tubing Hanger

State 32-1 2WDW

Surface Equipment:

12" x 11 3/4" 900 Series OCT Bradenhead Type C-22  
12" x 10" 900 Series OCT Inter.Spool Type C-22  
2 7/8" x 6" 900 Series Tubing Hanger  
Otis 5 1/2" "WB" Packer

Tubing:

5,020' 2 7/8" 6.50#, N-80, IPC  
7,087' 2 3/8" 4.70#, J-55, IPC

Rods:

N/A

Pump:

N/A

Stateline Field Battery & Flowlines

- 1 - 3' x 12' Single Phase Vertical Separator
- 1 - 8' x 20' 3 Phase Heater Treater
- 1 - 500 BBL Welded Stock Tank
- 1 - 750 BBL Bolted Stock Tank
- 1 - 300 BBL Welded Stock Tank
- 10,000 2 3/8 Flowline
- 7,200' 2 3/8 Flowline (Junked)
- 1 - LACT Unit - Size 2 with S-13 Smith meter 150# WP, GPM 26-130
- 1 - Baldor 20 hp motor, 2535 RPM
- 1 - Gould pump mod 3196, 1" x 1", SN 789C585
- 1 - Duty Master 3515 RPM pump with 7 1/2 hp motor Type 'P' with 215 Frame, SN PZ1E689A



11529

ASSIGNMENT AND BILL OF SALE

THIS AGREEMENT, entered into this 29th day of August, 1991, by and between Rickey Smith and Marilyn Smith, husband and wife, Mayo Marrs and Sue Marrs, husband and wife, whose mailing address is Box 863, Kermit, Texas 79745, (hereinafter referred to as "Assignor", whether one or more) and Santa Fe Exploration Company, a New Mexico corporation, whose mailing address is P. O. Box 1136, Roswell, New Mexico 88202-1136, (hereinafter referred to as "Assignee").

## DOES WITNESS THAT:

In consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the performance by Assignee of the covenants, agreements, obligations and conditions hereinafter contained, to be kept and performed by Assignee, it is agreed between the parties as follows, to-wit:

1. Assignment. Assignor does hereby assign, transfer and quitclaim to Assignee, without warranty express or implied, all of Assignor's right, title and interest in the real property listed in Exhibit "A" hereto, and made a part hereof insofar and only insofar as limited therein (hereinafter referred to as the "Assigned Premises"), subject to all of the covenants and conditions hereof and the additional provisions contained in said Exhibit "A". Assignor also quitclaims to Assignee any easements, rights-of-way or other rights of ingress and egress appertaining to the Assigned Premises, excepting, reserving and retaining therefrom all other such rights unto Assignor with respect to real property not quitclaimed hereby.

2. Bill of Sale. Assignor does hereby quitclaim unto Assignee all of Assignor's right, title and interest in and to all oil wells, gas wells, salt water disposal wells, injection wells and other wells located on the Assigned Premises, (hereinafter referred to as the "Wells") and to the personal property or equipment described in Exhibit "A" attached hereto and made a part hereof (hereinafter referred to as the "Personal Property").

3. No Warranty or Representation by Assignor. This Assignment and Bill of Sale is made on an "AS IS, WHERE IS" basis and "WITH ALL FAULTS", and WITHOUT WARRANTIES WHATSOEVER WITH RESPECT TO ANY INTEREST HEREIN QUITCLAIMED, EITHER EXPRESSED OR IMPLIED, it being expressly agreed by Assignor and Assignee that ASSIGNOR MAKES NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO ORIGIN, QUANTITY, QUALITY, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, SAFETY OF EQUIPMENT, COMPLIANCE WITH GOVERNMENTAL REGULATIONS, TITLE TO PERSONAL PROPERTY, THE QUANTITY, VALUE OR EXISTENCE OF RESERVES OF OIL, GAS OR OTHER

MINERALS PRODUCIBLE OR RECOVERABLE FROM THE ASSIGNED PREMISES, OR OF TITLE TO OR CONDITION OF THE ASSIGNED PREMISES AND RELATED FIXTURES AND IMPROVEMENTS. All descriptions set forth herein and all information heretofore or hereafter furnished Assignee by Assignor concerning the Assigned Premises, Wells and Personal Property, and the operation thereof, have been and shall be furnished solely for Assignee's convenience and have not constituted and shall not constitute a representation or warranty of any kind by Assignor, and any reliance thereupon by Assignee shall be at Assignee's sole risk and liability.

4. Reservations. All oil in tanks above the pipeline connections from the Wells to the tanks as of 7:00 A.M. on the effective date hereof is not to be part of this agreement, but shall remain the property of Assignor and shall be delivered to the pipeline company for the account of Assignor. All gas produced and the proceeds of gas produced prior to 7:00 A.M. on the effective date hereof shall likewise not be part of this agreement but shall remain the property of Assignor. This agreement further does not include any equipment or lines of the purchaser or purchasers of oil and gas from the Assigned Premises and does not include any tools, pulling machines, trucks or other equipment that may be located temporarily on the Assigned Premises, and Assignor shall have the right at any time to remove the same from the Assigned Premises.

Assignor shall invoice Assignee for Assignor's share of ending oil tank inventories, and Assignee shall pay such invoice within 30 days of receipt. Assignor shall value the ending oil inventory, and Assignee agrees to pay such invoices, at the value Assignor would have received if oil had been sold to Assignor's oil purchaser on the effective date of sale.

Assignor shall give Assignee reasonable notice of the final gauging of oil inventories, and Assignee shall have the option to jointly gauge such inventories. Assignee and Assignor shall acknowledge in writing the results of final gauging. Regardless of whether Assignee participates in gauging, the results of Assignor's final gauging shall be binding upon Assignee.

5. Indemnity of Assignor. (a) In those instances where Assignee succeeds Assignor as operator of Wells in which Assignor's interest is hereby quitclaimed, Assignee agrees to operate and plug and abandon all such Wells in accordance with all applicable governmental laws, rules and regulations. In those instances where Assignee is to succeed Assignor as a working interest owner but not as operator of Wells in which assignor's interest is hereby quitclaimed, Assignee agrees to assume any responsibility which Assignee as a working interest owner in such wells may have under applicable governmental laws, rules and regulations concerning plugging and abandonment of such Wells. In any instance where Assignee hereunder becomes responsible or liable for plugging and abandonment under this paragraph, Assignee agrees to release, protect, indemnify and hold Assignor harmless

from any and all liabilities arising from Assignee's failure to plug and abandon such Wells. Any future assignment by Assignee of any interest acquired hereunder shall reference and described Assignee's obligations to Assignor set forth herein.

(b) Assignee agrees to protect, indemnify and hold Assignor harmless from and against any and all liability, loss, damage, injury and claims, demands and causes of action therefore asserted or filed after the effective date hereof in any way arising from operations or activities related to the Assigned Premises, Wells and Personal Property and the contracts and agreements appertaining thereto based upon any theory of negligence, willful misconduct, liability without fault or other.

6. Liability of Assignee. Assignee shall observe and comply with all covenants, terms and provisions, express or implied, contained in the agreements, leases, easements and all other contracts appertaining to the Assigned premises, Wells and Personal Property, whether or not such agreements, leases, easements and other contracts are correctly and completely listed and/or identified on the Exhibits hereto.

7. Effective Date. This agreement shall be effective as of 7:00 A.M. on the 1st day of August, 1991.

8. FERC Order 451. (a) Assignor hereby reserves to itself, its successors and assigns, the right to initiate "good faith negotiation procedures" pursuant to FERC Order 451 and 18 C.F.R. Subsection 270.201 as to any eligible gas sales contract covering all or any of the property assigned hereby. Assignee hereby waives any and all rights it might otherwise have to initiate such procedures as to such gas sales contracts, such right being reserved exclusively to Assignor.

(b) If Assignor initiates good faith negotiation procedures under Order 451, pursuant to the rights reserved in the foregoing paragraph, Assignee recognizes and agrees that any gas sales contracts assigned to Assignee pursuant to this agreement (whether expressly or impliedly assigned, and whether or not such assignment is accomplished by a separate instrument) may be affected and modified by the result of such procedures, it being understood, however, that Assignee shall have the right and obligation to negotiate directly with the gas purchaser with respect to the gas assigned hereby. It is understood that the results of such procedures may include, but not be limited to, a reduction in the contract price for Assignee's gas or a release of the gas purchaser's obligation to buy such gas.

9. Transportation Credits Under FERC Order 500. (a) Assignee agrees that it will not, without Assignor's prior written permission, which permission may be granted or withheld at the sole discretion of Assignor, tender or permit natural gas produced from the properties hereby assigned to be transported on any interstate pipeline under authority of 18 C.F.R. Part 284, unless

such pipeline has first agreed in writing to waive any right it might otherwise have, pursuant to Federal Energy Regulatory Commission Order No. 500, Docket No. RM87-34-000, any further or final order or rule in such docket, or any subsequent rule or order having similar subject matter, to apply credits for such transportation against take-or-pay or take-and-pay obligations of such interstate pipeline under any contract with Assignor.

(b) It is understood that interstate pipelines may refuse to transport under 18 C.F.R. Part 284 gas produced from the properties hereby assigned unless Assignor agrees to offer take-or-pay or take-and-pay credit to such pipelines, and the parties hereby agree that Assignor may withhold such an offer at its sole discretion, even if the result is to completely bar Assignee's gas from the properties hereby assigned from open access transportation in such pipelines. Notwithstanding the foregoing, Assignor agrees to execute offers of credit necessary to render the assigned gas eligible for open access transportation if Assignor determines, in its sole discretion, that such gas is exempt from crediting pursuant to FERC rules and regulations or that Assignor can otherwise execute such offers of credit without risk of adverse economic consequences to Assignor. Any offers of credit executed by Assignor pursuant to this provision shall be limited in scope or term as Assignor deems necessary.

(c) If and to the extent that Assignor's rights and obligations under a gas purchase contract with an interstate pipeline (hereinafter the "Assigned Contract") are assigned to Assignee as part of this transaction, in whole or in part, and regardless of whether such contract rights and obligations may be assigned by implication herefrom or by a separate instrument, Assignee, by accepting this assignment, agrees to execute upon Assignor's request any and all offers of credit or other agreements that may be required under said Order 500 to accomplish or facilitate the transportation by such interstate pipeline of any gas owned by Assignor. Assignee understands and agrees that it may be required to grant such interstate pipeline credits against both past and current take-or-pay or take-and-pay obligations of the Assigned Contract, without any corresponding benefit to Assignee, in order to render Assignor's gas eligible for transportation on such pipeline.

(d) In the event Assignee violates any of the provisions of this Article, Assignee shall be liable to Assignor for all actual damages incurred by Assignor as a result thereof, which damages shall include, but not be limited to, the monetary value to Assignor of any take-or-pay or take-and-pay credits which Assignor is required to grant or is deemed to have granted as a result of Assignee's actions in violation of this Article. Upon prevailing in any action to enforce the provisions of this Article, Assignor shall also be entitled to recover its reasonable costs and attorney fees. The provisions of this Article shall run with the real property interests hereby assigned and shall bind and inure

to the benefit of the parties hereto and their respective successors and assigns.

10. Judicial Review of FERC Orders 451 and 490. Assignee understands and agrees that Federal Energy Regulatory Commission (FERC) Order Nos. 451 and 490 are presently undergoing judicial review and that the final result of such review may impact (1) the market or purchaser to which gas produced from the properties hereby assigned may lawfully be sold, and/or (2) the maximum lawful price at which such gas may be sold. Assignor makes no representations or warranties as to the outcome of such judicial review and Assignee hereby accepts all risks that such judicial review may result in a remand, vacation, suspension, or modification of such FERC Orders in a manner detrimental to Assignee.

11. Notice of Possible FERC Jurisdiction and/or Contract Negotiation. Assignee is hereby advised that the property which is the subject of this instrument may have been subject to FERC jurisdiction and affected by contract renegotiation, settlement and/or abandonment procedures pursuant to FERC Orders 436, 451, 490, and/or 500. If necessary, Assignor reserves the exclusive right to renegotiate any settlement or contract affected or invalidated by court action.

12. Call on Oil. Chevron U.S.A. Inc., by prior Assignment and Bill of Sale dated January 15, 1990, shall have the option, exercisable at any time and from time to time by 30 days written notice, to purchase or designate a purchaser of the crude oil attributable to the Assigned Premises. The price to be paid to Assignee shall be the current market price when produced which is paid for oil of like gravity and quality in the field where said Assigned Premises are located.

In the event Chevron U.S.A. Inc. fails to exercise the option to purchase provided above, then Assignee may sell and dispose of such production in such manner and upon such terms as it may elect only after Chevron U.S.A. Inc. has been so notified, in writing, and has elected not to purchase or designate a purchaser. In the exercise of this option to purchase, Chevron U.S.A. Inc. will not assume or retain any responsibility for division order maintenance.

13. Gas Sales Contracts. All of the natural gas produced from the Assigned Premises has heretofore been committed to the following Gas Purchase Contract: Gas Purchase Contract #SC-0161C, dated May 21, 1985, by and between Chevron U.S.A. Inc. (Seller) and Phillips 66 (Purchaser). Therefore, during the life of said identified contract and any successor or replacement contract thereto, none of the natural gas produced from the Assigned Premises shall be committed to any other gas purchase contract, and, with respect to or bearing upon the interest acquired by Assignee in the Assigned Premises, Assignee hereby agrees to comply with and perform the duties and obligations imposed upon

Assignor under said gas purchase contract. The foregoing restriction may be removed if Assignee obtains from the purchaser of said natural gas a release of that gas from the aforementioned identified contract, or successor, or replacement contracts thereto.

14. Successors and Assigns. The terms hereof shall inure to and be binding upon the respective heirs, successors and assigns of Assignor and Assignee.

15. State Leases. As to any lease in the attached Exhibit "A" hereto that affect an Oil and Gas Lease issued by the State of New Mexico this agreement shall be construed as a "Contract for Development" as permitted by Subsection 19-10-13 NMSA (1978) and not as an assignment of record title to said lease.

EXECUTED the day and year first above written, but effective as of the date shown in Paragraph 7 hereof.

ASSIGNOR:

Rickey Smith  
Rickey Smith

Marilyn Smith  
Marilyn Smith

And

Mayo Marrs  
Mayo Marrs

Sue Marrs  
Sue Marrs

ASSIGNEE:

SANTA FE EXPLORATION COMPANY

By: William A. McAlpine, Jr.  
William A. McAlpine, Jr.  
President

EXHIBIT "A"

Attached to and made a part of Assignment and Bill of Sale effective August 1, 1991, by and between Rickey Smith and Marilyn Smith, husband and wife, and Mayo Marrs and Sue Marrs, husband and wife, (Assignor) and Santa Fe Exploration Company (Assignee).

ASSIGNED PREMISES

All of Assignor's right, title and interest in and to the below listed oil and gas leases and the wells and personal property described on Exhibit "A-1" attached hereto and made a part hereof, all located in Lea County, New Mexico.

1. LN 200289: Oil and Gas lease dated September 23, 1933, bearing State Lease No. B-2657 from the State of New Mexico in favor of Continental Oil Company, INSOFAR and only INSOFAR as said lease covers Lots 1 and 2 of Section 5, T24S-R38E, containing 79.60 acres, more or less.
2. LN 200268: Oil and Gas lease dated April 21, 1930, bearing State Lease No. A-2614 from the State of New Mexico in favor of The Ohio Company, INSOFAR AND ONLY INSOFAR as said lease covers the S/2 SW/4 and the N/2 SE/4 of Section 32, T23S-R38E, containing 160 acres, more or less.

The Assigned Premises Are subject to the following:

1. Unrecorded Water Disposal Agreement dated June 17, 1986, by and between Conoco Inc. as Operator and Chevron U.S.A. Inc. as non-operator.
2. Unrecorded Gas Purchase Contract #SG-0161C dated May 21, 1985, by and between Chevron U.S.A. Inc., or its successor (Seller), and Phillips 66 (Purchaser).

Wells and Personal Property

"Wells" or "Personal Property", as those terms are defined in the Assignment and Bill of Sale to which this Exhibit "A" is attached, are listed on Exhibit "A-1" attached hereto and made a part hereof.

EXHIBIT "A-1"

Attached to and made a part of Assignment and Bill of Sale effective August 1, 1991, by and between Chevron U.S.A. Inc. (Assignor) and Rickey Smith and Mayo Marrs (Assignee)

WELLS AND PERSONAL PROPERTY

State 32-1-1 TA'D

Surface Equipment:

- 12" x 11 3/4" 900 Series OCT Bradenhead Type C-22
- 12" x 10" 900 Series OCT Inter. Spool Type C-22
- 10" x 6" 900 Series OCT Tubing Head Type C-22
- 2 7/8" x 6" 900 Series Tubing Hanger

State 32-1 2WDW

Surface Equipment

- 12" x 11 3/4" 900 Series OCT Bradenhead Type C-22
- 12" x 10" 900 Series OCT Inter. Spool Type C-22
- 2 7/8" x 6" 900 Series Tubing Hanger
- Cals 5 1/2" "WB" Packer

Tubing:

- 5,020' 2 7/8" 6.50E, N-80, IPC
- 7,087' 2 3/8" 4.70#, J-55, IPC

Rods:

N/A

Pump:

N/A

Stateline Field Battery & Flowlines

- 1 - 3' x 12' Single Phase Vertical Separator
- 1 - 8' x 20' 3 Phase Heater Treater
- 1 - 500 BBL Welded Stock Tank
- 1 - 750 BBL Bolted Stock Tank
- 1 - 300 BBL Welded Stock Tank
- 10,000 2 3/8 Flowline
- 7,200' 2 3/8 Flowline (Junked)
- 1 - Lact Unit - Size 2 with S-13 Smith meter 150# WP, GPM 26-130
- 1 - Baldor 20 hp motor, 2530 RPM
- 1 - Gould pump mod 3196, 1" x 1", SN 789C585
- 1 - Duty Master 3515 RPM pump with 7 1/2 hp motor Type 'P' with 215 Frame, SN PZ1E689A



EXHIBIT "B"  
Attached To And Made A Part Of That Certain Assignment And Bill Of Sale Effective August 1, 1991  
By And Between Rickey Smith and Mayo Mairs, As Seller and Santa Fe Exploration Company, as Buyer

11523

STATELINE FIELD  
LEA COUNTY, NEW MEXICO

JULY 1989										
SWATHS DAILY										
PRODUCTION										
BOACF/BW										
REMARKS										
<u>LEASE</u>	<u>LEASE DESCRIPTION</u>	<u>LEASE ACRES</u>	<u>OPERATOR</u>	<u>WORKING INTEREST</u>	<u>NET REVENUE INTEREST</u>	<u>PRODUCING FORMATION</u>	<u>APPROX DEPTH</u>	<u>NO OF WELLS ACT.</u>	<u>INACT.</u>	
Block 32-1 Rte 2002889	N/2 SE and S/2 SW/4 Section 32, T23S-R38E	.60	Santa Fe Explora- tion Co.	1.0	.8125	Ehrenburger	12,185'	0	2"	0.000
At Depth Temporarily abandoned well										
Includes 1 shut-in SYD well										
Continental State #1 Le 2002889	N/2 NE Section 5, T24S-R38E	.60	Santa Fe Explora- tion Co.	1.0	.8125	N/A	N/A	N/A	N/A	0.000
At Depth Non-producing HBP seeps										

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STATE OF NEW MEXICO  
COUNTY OF LEA  
FILED

SEP 13 1991  
at 12:12 o'clock P.M.  
and recorded in Book \_\_\_\_\_  
Page \_\_\_\_\_  
Pet Chappell Lea County Clerk  
By \_\_\_\_\_