

March 7, 1955

Re: #1 Copper
Lease #47789
W/60 ac. of NE $\frac{1}{4}$ SE $\frac{1}{4}$
Section 28-25S-37E
Lea County, New Mexico

Harry Leonard, et al, lease

Dated: 2-28-45.

Recorded: Book 56, page 55, Oil & Gas Records of Lea County, New Mexico.

Primary Term: Ten years.

Working Interest: $\frac{3}{8}$ of $\frac{7}{8}$ subject to oil payment.

Consideration Paid: \$100.00 per acre plus \$1,000.00 per acre oil payment,
payable out of $\frac{1}{16}$ of $\frac{7}{8}$ of oil produced.

S. M. Gloyd, et ux, lease

Dated: 3-13-45.

Recorded: Book 56, page 59, Oil & Gas Records of Lea County, New Mexico.

Primary Term: Ten years.

Working Interest: $\frac{3}{8}$ of $\frac{7}{8}$ subject to oil payment.

Consideration Paid: \$100.00 per acre plus \$1,000.00 per acre oil payment,
payable out of $\frac{1}{16}$ of $\frac{7}{8}$ of oil produced.

By letter dated 12-18-53, E. A. Culbertson and Wallace W. Irwin requested Phillips to contribute $\frac{1}{2}$ of their interest in above leases below a depth of 4000' or contribute \$7,000.00 dry hole money in support of an Ellenburger test to be located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 28-25S-37E, Lea County, New Mexico. Proposed test well was to be commenced by 4-1-54.

By letter to Culbertson and Irwin dated 2-16-54, Phillips agreed to contribute \$7,000.00 dry hole money in support of a well drilled in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 28-25S-37E, Lea County, New Mexico, to a depth of 11,000' or to excessive water in the Ellenburger formation at a lesser depth or to impenetrable substance at a lesser depth. Said letter provided that well was to be commenced by 4-1-54 and completed by 10-1-54.

By letter dated 2-24-54, Culbertson and Irwin assigned to Anderson-Prichard Oil Corporation all their interest in Phillips dry hole contribution letter dated 2-16-54.

By letter dated 3-1-54, Phillips consented to assignment of dry hole letter to Anderson-Prichard.

By letter dated 3-8-54, Culbertson and Irwin requested an extension of time to 4-15-54 within which to commence their proposed test well.

By letter dated 3-11-54, Phillips agreed that proposed test well could be commenced by 4-15-54 and completed by 10-12-54.

Anderson-Prichard #1 American Republics Federal located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 28-25S-37E, Lea County, New Mexico, was spudded 4-14-54.

By letter dated 11-29-54, Anderson-Prichard requested an extension of time to 3-1-55 within which to complete their #1 American Republics Federal.

By letter dated 12-13-54, Phillips granted an extension of time to 2-1-55 within which the #1 American Republics Federal could be completed.

#1 American Republics Federal completed 1-17-55. I.P. calculated open flow 67,500 MCFGPD thru 20/64" choke.

On 8-16-54 Phillips started negotiations with the owners under the SE $\frac{1}{4}$ Section 28-25S-37E for unitizing said 160 acres and drilling an offset to the Anderson-Prichard #1 American Republics Federal. Woodley Petroleum Company, who owns lease covering the S/100 acres of SE $\frac{1}{4}$ Section 28-25S-37E, advised that they would not consider unitizing except for production of gas below a depth of 4000' and would not consider this type of unitization until the Anderson-Prichard #1 American Republics Federal was completed.

Numerous discussions were had by Phillips with the owners under the SE $\frac{1}{4}$ Section 28-25S-37E relative to the terms and contents of a Unit Operating Agreement. It was not possible to prepare such an agreement until the Anderson-Prichard #1 American Republics Federal was completed since it was not certain whether it would be completed as a gas well or an oil well and it was not certain as to what depth the well should be projected.

After completion of the #1 American Republics Federal, we started the preparation of a Unit Operating Agreement and after numerous discussions with the owners under the SE $\frac{1}{4}$ Section 28-25S-37E, a Unit Operating Agreement covering the SE $\frac{1}{4}$ Section 28-25S-37E was completed on 2-7-55.* A Phillips landman took a plane to Bartlesville, Oklahoma, on 2-7-55 and the agreement was executed by Phillips on 2-9-55.

The Phillips landman then took the Unit Operating Agreement to Abilene, Texas, to be reviewed by the Abilene, Texas, office of Woodley Petroleum Company. After reviewing the instrument with Woodley's Abilene office, the Phillips landman then took the instrument to Woodley's home office in Houston for execution where he spent five days trying to obtain the signature of Woodley Petroleum Company to the Unit Operating Agreement.

On 2-18-55 Woodley finally advised the Phillips landman that the Unit Operating Agreement was satisfactory; however, they refused to execute said agreement since in their opinion it was possible that either 320 or 640 acre proration units would be established in this area for Devonian gas production and for this reason they did not want to join in the proposed 160 acre unit and take 100/160 of the risk of drilling a dry hole.

*It was recognized that proration units in excess of 160 acres might be established in this area; however, in such event the Unit Operating Agreement could be amended to include a larger area.